

Part 1 of EN 67-701

STANDING GROUP AGENDA

28 May Mtg. : Cuban sugar paper of Department of Agriculture.
"Cuba After Castro"
Possible Courses of Action in Cuba.

[Redacted]

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Related papers:

1. Cuban attacks Reconnaissance Flights -- Contingency Plan

[Redacted]

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NSC review(s) completed.

State Department review completed

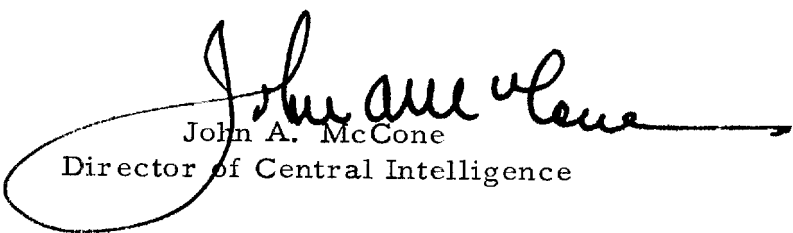
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MEMORANDUM FOR: NSC Standing Group Members

This memorandum, provided for your information, was prepared as a result of the 30 April Standing Group Meeting in which CIA was asked to develop a list of possible actions which might be undertaken against Cuba.

The first attachment is a list of possible additional actions against Cuba. They are listed without regard to present policy limitations. As indicated in the remarks, CIA does not favor all of the actions listed.

The second attachment contains a list of possible additional actions which have been considered in the past but which CIA does not favor for the reasons noted in the remarks.


John A. McCone
Director of Central Intelligence

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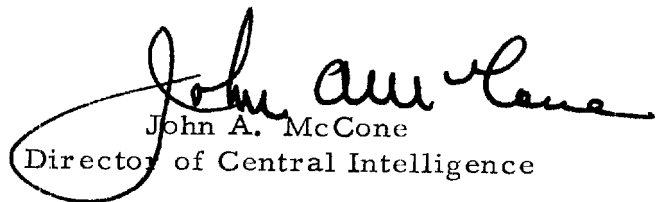
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MEMORANDUM FOR: NSC Standing Group Members

The attached memorandum was prepared by CIA following the 30 April Standing Group Meeting in which CIA was asked to report on the Cuban oil situation.


John A. McCone
Director of Central Intelligence

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FEB 1963

CUBAN SUPPLY AND DEMAND OF CRUDE OIL
AND REFINED PETROLEUM PRODUCTS

1. Cuba's total supply of petroleum, crude and refined, for 1962 was a total of 93,000 barrels per day (bpd). This was supplied by the Soviet Bloc, principally the Soviet Union.

A. The above 93,000 (bpd) breaks down to a daily average of 77,000 (bpd) of crude which when refined by the three Cuban refineries (formerly Esso, Shell and Texaco) produced 70,000 bpd finished products, which at USSR crude conversion rates produces 28% gasoline, 27% gas oil and kerosene, and 45% fuel oil, or 19,600 bpd gasoline (about 58 octane), 18,900 bpd gas oil and kerosene, and 31,500 bpd fuel oil.

B. The remaining 16,000 bpd are of refined products. The May 1963 planned delivery is a good example of an average month:

<u>Delivery - May 1963</u>	<u>Tons</u>
A 98 High Octane Auto gas	10,000
A 83 Medium Octane Auto gas	11,000
T 1 Jet fuel	5,500
MS 20 Aviation Oil	1,300
Vapor (industrial oil)	1,200
Machine oil (slow machinery)	3,000
Spindle oil	1,800
Kerosene and gas oil	16,000
Fuel oil	23,200
TONS FOR MAY	73,000

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2. The consumption of petroleum products in Cuba in 1959 (the last year of U.S. corporation records) was between 58,000 and 60,000 bpd. Why Cuba is now consuming 86,000 bpd of finished and refined petroleum products is a confusing question both to those working on Cuba petroleum consumption statistics and also to the U.S. petroleum industry.

3. Despite the increase in Cuba's supply of petroleum products over 1959 consumption, our effort to account for the increased consumption or locate new storage areas has been unsuccessful. Aerial photographs disclose only slight increase in above ground storage facilities since 1959. The largest expansion is three new crude storage tanks at the Texaco refinery in Santiago consisting of about 60,000 barrels each and four crude storage tanks at the Esso refinery in Havana of also about 60,000 barrels each.

4. Present storage facilities in Cuba, using a consumption rate of 60,000 bpd, would store a sufficient quantity to supply: (a) gasoline for at least six months; (b) fuel oil for at least six months; and (c) gas oil and kerosene for at least $4\frac{1}{2}$ months.

5. The only petroleum products the Bloc probably cannot supply Cuba, without reducing their own needs, are Bright and additives for lubricating oil. These Cuba has been trying desperately to obtain from the West.

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MEMORANDUM FOR: Acting Director of Central Intelligence

SUBJECT: Cuban Supply and Demand of Crude Oil
and Refined Petroleum Products

1. This memorandum is in response to your request for information on the above subject and is for your use at the next meeting of the Standing Group.

2. The attached paper has been coordinated with DDI/ORR. Sufficient copies are provided should you desire to distribute the attachment to members of the Standing Group.


Richard Helms
Deputy Director
(Plans)

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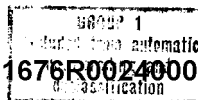
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CENTRAL INTELLIGENCE AGENCY

OFFICE OF NATIONAL ESTIMATES

13 May 1963

DRAFT MEMORANDUM

SUBJECT: Developments in Cuba and Possible US Actions in
the Event of Castro's Death*

SUMMARY

We believe the odds are that upon Castro's death his brother Raul or some other figure in the regime would, with Soviet backing and help, take over control. However, there is a good chance that a power struggle would ensue, and a lesser chance that such a struggle would spread, either into a many-sided conflict or with the Moscow-oriented Communists lined up on one side and those who are essentially Cuban nationalists on the other. In any case

* This memorandum is a general analysis of the situation and prospects for US action after Castro's death. We have not sought to work out in detail Latin American, Western European, or other third party reactions in the various contingencies adverted to in our examination of the problem. In paragraph 13 we consider very generally the problem of Soviet reactions.

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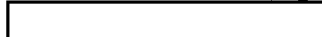


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the loyalties of the military commanders, now committed to Fidel but probably divided after his death, would significantly influence the outcome. Anti-Moscow Cuban nationalists would require extensive US help in order to win, and probably US military intervention.

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I. CUBA WITHOUT CASTRO

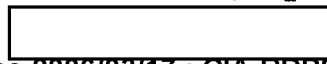
Factors in the Situation

1. The course of events in Cuba after Castro's death would depend upon a wide range of variables and unknowns, which are unlikely to be made manifest until after the event. Yet we can make some advance assessment of the importance of certain factors.

a. The Leadership. Castro's personal predominance has overshadowed the rest of the leadership. The two most prominent and powerful political leaders under Fidel are his brother Raul and Che Guevara. Raul is Deputy Premier and the designated successor. Furthermore he is Minister of the Armed Forces and Commander in Chief. He has by far the best chance of taking over after his brother's death, but he has a cold and unattractive personality with little of Fidel's appeal to the public. On the other hand, Che Guevara is a more colorful figure, a man of ability and drive, and therefore a likely contender for power. If these two were to cooperate, together with President Dorticos they would have a good chance of consolidating control. Among the old line Communists the position and attitude of Carlos Rafael Rodriquez would be the most important, since he enjoys

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some respect among the Fidelistas and has authority among the Moscow-oriented Communists.

b. Differences within the Regime. The top leadership of the regime seems to live in more harmony than after the Escalante affair in the spring of 1962 or after the October 1962 crisis. However, we believe that there is still a basic cleavage between the Fidelistas and the Moscow-oriented Communists and that it might widen in situations of stress.

c. The Army and Security Forces. The armed forces and security services have been molded into instruments highly responsive to Fidel himself. After his departure, both the army and the security forces are likely to become more important and more active in politics. Their allegiance in a power struggle would depend to a major extent on the circumstances then current. We have little trustworthy information on the majority of the individual military commanders, but we do know that popular leaders have been moved from post to post, presumably to prevent their attaining too great power. A sizeable minority of the top military commanders are persuasively reported to be opposed to the present close ties with the USSR; they have been restrained so far by their personal loyalty to Fidel and by the regime's

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informant system. A few commanders would probably lend themselves readily to support of another Moscow-oriented leader; most have demonstrated no political loyalty except to Castro. Thus we would expect dissension within the armed forces in the event of a struggle for power. The loyalty of the commanders rather than the attitude of the troops would probably govern the behavior of the military forces in such a struggle.

d. The Cuban Public. The enthusiasm of a substantial portion of the population for the changes wrought by the Castro revolution, the departure or imprisonment of many potential

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leaders of opposition, the general passivity of the remainder of the population, the weakness of the resistance, and the strength of the security organizations all argue against the likelihood of a popular uprising after Castro's death.

e. The Soviet Role. Castro's death would deprive the Soviets of the only Communist leader with Charisma in Latin America and at the same time relieve them of the difficulties of doing business with a spiney independent character. Castro's successor might be far easier for the Soviets to deal with, but is sure to lack Castro's wide emotional appeal. Upon Castro's death the Soviets would move rapidly to the support of Raul Castro or whatever other friendly contender for power seemed likely to win out. They would be able to offer significant help to their chosen instrument, and such support might be decisive in any struggle for power among the top leadership.

f. The US Role. If Castro were to die by other than natural causes the US would be widely charged with complicity, even though it is widely known that Castro has many enemies. US intervention would be anticipated by many supporters and by many opponents of the regime. In this state of affairs, not only the nature but also the timing of US actions would have great importance, and US

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silence or inaction would also have far-reaching consequences. These will be dealt with in more detail in the following paragraphs.

Stages of the Cuban Reaction to Castro's Death

4. If the US did not intervene immediately, Raul Castro or one of the top echelon of Castro's followers would probably be able to consolidate a working regime acceptable to the Soviets. However, we believe that there would be a substantial, though less than even chance, of a struggle for power among the top leaders. Such a struggle for power might be resolved by the emergence of a single leader, but there is a chance that the conflict would ultimately take on the characteristics of a civil war.

a. Initial Period of Solidarity. We believe that the most probable development after Castro's death would be a rallying of a regime around the designated successor, Raul Castro. The opposition would take heart, but would wait for a move from the US and the Latin American opponents of the Castro regime before committing itself to more than token efforts. After an initial period of consolidation and solidarity the new leaders might go on to shore up their position and establish their permanent authority and control. On the other hand, it is equally likely that a

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struggle for power will develop. During this early phase we believe that pressure from the US would be more likely to increase the solidarity of the regime than promote a power struggle.

b. Struggle for Power. If some individual or group decided to contest Raul's leadership, the outcome would depend upon a number of factors, the most important of which would probably be whether Raul had gained or alienated the loyalty of the armed forces. It is possible that, as in the USSR, the struggle for power could be confined to the inner circles and that a single figure would eventually gain control. In Cuba, however, such a struggle would be likely to break into the open, throwing up several ambitious contenders for place and power.

c. Widened Conflict. It is also possible that a struggle for power would not end after the strongest of the individual leaders had asserted himself but that alliances would be formed and lines be drawn between the Fidelistas on the one hand and the Moscow-oriented Communists on the other. Such a split could extend into the Army and security forces and develop into something like a civil war. Perhaps even more likely than a two sided civil war would be a conflict in which many groups

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emerged, all striving for dominance, forming alliances and breaking off into new splinter groups and factions. In such a situation the emergence of a non-Communist Fidelista group, claiming to be the rightful heirs of the original revolution, would be a possibility, but unlikely without US support.

d. Ultimate Resolution. Whatever the outcome of an upheaval like that described above, certain elements in the present situation seem certain to survive. The social and economic changes brought about by Castro's revolution are unlikely to be reversed, whether or not Castro's ultimate successor be a Communist. Cuba is likely to be a socialist state and probably to require for some time an authoritarian government. Whoever the leader of Cuba is, he will probably be critically dependent upon the support of armed forces.

II. US COURSES OF ACTION

5. No Special US Initiatives. The posture of the US in the immediate aftermath of Castro's death will be of critical importance. If the US took no position and no action after Castro's death the new regime would move rapidly to consolidate

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its hold and the likelihood of an anti-Communist force emerging would be greatly reduced. If such an anti-Communist group did emerge without the encouragement or intervention of the US its position might be less vulnerable to charges of being the creature of the US. We think it much more likely, however, that any anti-Communist group that emerged in Cuba would need and might openly seek assurances and help from the US. The most likely circumstances for such an appeal would be those in which a nationalist group was openly in conflict with a Communist-directed and supported group.

6. US Support for the "True Heirs" of the 26th of July Movement.

The emergence of an effective anti-Communist force in Cuba will depend primarily on Cuban initiative and would probably require the defection of important elements of the existing regime. With proper timing, however, US encouragement might stimulate such a development. Once the internal political forces in Cuba have produced a split between the nationalists and the Moscow-oriented Communists US initiatives would be of utmost importance. At the right moment they might produce a merging of nationalists within the regime and those in opposition. This seems to us the combination most likely to upset the forces seeking a Communist succession.

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If US offers are to have an appeal to such a coalition they must make clear the willingness of the US to cooperate with former members and supporters of the Castro regime whose aim is to achieve Cuba's independence of the Soviets and the Communist Bloc. It will also be necessary for the US to make a convincing assertion of its readiness to accept most of the social and economic changes instituted by the Castro regime.

7. The problem of timing will, of course, be one of great importance. It seems likely that there would be a period during which a public announcement of US willingness to support a nationalist group would be disadvantageous. A too rapid announcement might serve to consolidate resistance to these people; a too long delay could cause them to despair. Meanwhile, it would be essential to transmit an offer of support clandestinely to the right people at the earliest possible moment. One problem will be the relative timing of a US announcement and of activities designed to preposition forces in anticipation of fulfilling promises. It will be extremely difficult to move any US forces without publicity by the US press, but such prepositioning as can be carried out inconspicuously probably ought to take place as soon as a general course of action has been decided upon. A public statement of

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US intentions should probably be made before military preparations directed toward Cuba become widely known.

8. Once a nationalist group had emerged and entered into conflict with the Moscow-oriented Communists, the assistance which it would require from the US would depend largely on circumstances. It might be that arms and ammunition delivered rapidly and in such a way as to ensure its victory would be the only aid called for. It is possible that such a group would ask for US air support and perhaps for US ground forces as well in the early stages of conflict; sooner or later it would almost certainly require such support. In a later stage if a US supported nationalist group had won dominance, the US would face a new set of problems. Almost any such group would be likely to insist that no political or social changes made under Castro be reversed except at its own initiative. Compensation for expropriated US property might be agreed to, but not at a realistic figure. The US would almost certainly be obliged to undertake an aid program at least the rough equal of the present Soviet program.

9. Action Through a Government in Exile. It is highly unlikely that any Cuban exile group could effectively influence the course of events in Cuba after Castro's death, with or without US support. Furthermore, the association of exiles with US

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initiatives would probably reduce their chances of success. It is possible that certain groups in Cuba would prefer to deal with the US through a Cuban government in exile, but we think it unlikely.

10. Quarantine and Blockade. If in consonance with various policy pronouncements the US were to quarantine Soviet attempts to reinforce its military and technical personnel in Cuba and to introduce additional armaments, the US-oriented revolutionaries would probably be enspirited. If on the other hand the US declared a blockade the reactions in Cuba would be mixed: our friends would be greatly heartened to realize that the US had indicated its willingness to bring down the Communist regime in Cuba, even at the risk of war with the Soviet Union. The regime would be apprehensive. Unless the blockade were swiftly challenged by the Soviets and the focus of the confrontation drastically shifted, the chances of the fall of the successor Cuban regime would rise.

11. Invasion. If the US declared its readiness to support the Cuban nationalists and true heirs of the Castro revolution and if such a group emerged, the chances are at least even that it would require the intervention of US forces before it could

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gain control of the island. Of the various guises under which invasion might be undertaken the least palatable and probably the least effective would be that of a Cuban exile force. An undisguised US invasion would cause political problems inside and outside Cuba, but we do not believe that they would be unacceptable to the Cu' anti-Communist movement. Much would depend, of course, on the authenticity of the Cuban movement.

12. Joint Action by Hemisphere States. Joint OAS action would be unlikely to have any great appeal to Cubans, even the Cuban nationalists. However, steps to bring the OAS in some way or another into any action contemplated by the US might help avoid many diplomatic problems in Latin America and elsewhere.

13. Soviet Reaction. Castro's departure from the scene would not lessen the Soviet concern to preserve the Communist base in Cuba. They would certainly try to influence the situation, particularly if a power struggle developed. For a time they could operate behind the scenes and publicly would not have to go beyond reaffirmation of their vague commitments to protect a Communist Cuba. Once the struggle reached open

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conflict, or if the US took strong action against the new regime, the USSR would have no choice. They would have to decide how far to go in support of a Communist faction. What they would do outside Cuba is beyond the scope of this paper, but within Cuba we believe the Soviets would be cautious about engaging in open conflict.

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THE WHITE HOUSE
WASHINGTON

May 27, 1963

MEMORANDUM FOR

National Security Council Standing Group

Attached is a paper which will be discussed
at the Standing Group meeting on May 28, 5:00 PM.


Bromley Smith

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25 April 1963

MEMORANDUM ON CUBAN POLICY

(Random thoughts developed by DCI on various aspects of the Cuban problem and the discussion at Standing Group prepared for use by representatives of DCI at meetings on this subject during his absence from the country.)

1. Castro's position - I agree with the ONE estimate that Castro's political position will improve within the next year (barring assassination). His image among liberals and insurgent groups in the Western Hemisphere will improve, though this will not be the case with the Heads of State. Economic hardships and other difficulties, such as insurgency, raids, etc. within Cuba, will complicate his problems but, on balance, it seems to me Castro's situation has improved since about December and will continue to improve. The Cuban people will become "resigned" to his presence and will go about their business expressing their resentment in apathy rather than in active belligerence. This trend can be slowed and possibly reversed if United States action is taken with determination, continuity and consistency.

2. Economic situation - Undoubtedly, the Castro Government is seriously hurt by US economic actions. These actions alone, however, cannot bring Castro down although they will continue to give him trouble and to increase Soviet problems and costs in supporting him. The economic blockade must be kept up and intensified. Great effort must be exercised to shut off supply of parts from Canada, which is now

flowing in small but very important quantities. Continuing effort must be exercised with all Western European countries. Moreover, a continuing effort must be exercised with major U.S. corporations, as has been done with International Harvester on tractors from Spain, and with the oil companies in controlling the "bright stock" supply. Trade with Latin America plays a minor role in Cuba's export-import economy, but the Latin American countries should continue their economic boycott which has been effective. The principal and most effective means of "hardening" Castro's economic situation will come through Canada, Western Europe and Japan. Intensified efforts might be effective, but I would expect that the passage of time and the "acceptance" of Castro and his Communist government, the pressures of trade, the seeking of markets, the taking advantage of business opportunities, etc., will cause a decided weakening of Canadian-European support of our program of economic sanctions. This has been true of other U.S. efforts of this type in the past, such as trade with the Soviet Union, Chinese Communists and others.

3. The sugar market - Castro's problems and the Soviet cost of supporting Castro is offset to a considerable degree by the dramatic increase in the price of sugar. The increase in the last year, when applied to 75% of estimated 1963 production of sugar, about equals the estimated economic aid the Soviets are required to give Cuba in 1963. Therefore,

it might be said that the Free World is supplying the money with which the Soviets are supporting Castro. Careful exploration should be made as to why the sugar market has gone up so dramatically (2-3/4¢ in 1961 - 6-1/2 to 7¢ now). The United States should break the sugar market if possible. This is a sensitive market and is "made" by middlemen and can be manipulated. An upward movement of a cent a pound would decrease the Soviet/Cuban dollar income by \$60-70 million this year. Although there are some indications that the demand for sugar exceeds supply it is hard to believe that this factor in itself is totally responsible for the present price of sugar.

4. To use shipping as a weapon is not very effective. There are lots of idle bottoms and the Soviets can employ them for their non-Cuban trade and use their tankers and dry cargo ships for Cuban trade. While our efforts with the Free World countries should be continued, we should not consider this as a very important and effective means of hurting Castro. In fact, to the extent that non-Bloc ships could be conveyors of agents and various sabotage devices, their occasional transit into Cuba might be an advantage rather than a disadvantage from our standpoint.

NOTE: In summary, actions against Castro's economy should be continued and hardened and might make things more difficult for him. But these will not bring him down. Furthermore, it will become increasingly difficult to secure Free World cooperation as the world public gets used to Castro.

5. The Soviet presence in Cuba continues. There has been no appreciable exodus in recent weeks; there are no large passenger ships enroute to Cuba now. Indications are that Khrushchev has met his commitment of removing "several thousand Soviets", and may have called a halt to the exodus. It may be resumed as Cubans become proficient in handling the equipment. Castro apparently expects this, to judge from his statements to Donovan. I really have no assurance this will take place and we should not be deterred from any actions of any kind necessary to slow down Castro's growth or to overthrow him on grounds that this would cause a Kremlin decision not to remove its troops.

6. The Soviet threat. Finally, the presence of the several thousand Soviets in Cuba does not pose a threat to this country. The Soviets would probably not engage themselves in any internal situation within Cuba. Nevertheless, there is no reasonable explanation for the presence of so many Soviets or for the retention in Cuba of a variety of very sophisticated military equipment, most important of which are the SAM sites. One can only conclude that the SAMs are there to be used at the Soviets' will in depriving the United States of aerial surveillance and our source of knowledge of what is going on in Cuba. The SAMs are not useful in the defense of Cuba. They can be destroyed quickly by low-level attack. Therefore, they are there for some other purpose and this is not adequately explained, in my opinion, by "Khrushchev's pride or loss of face or the

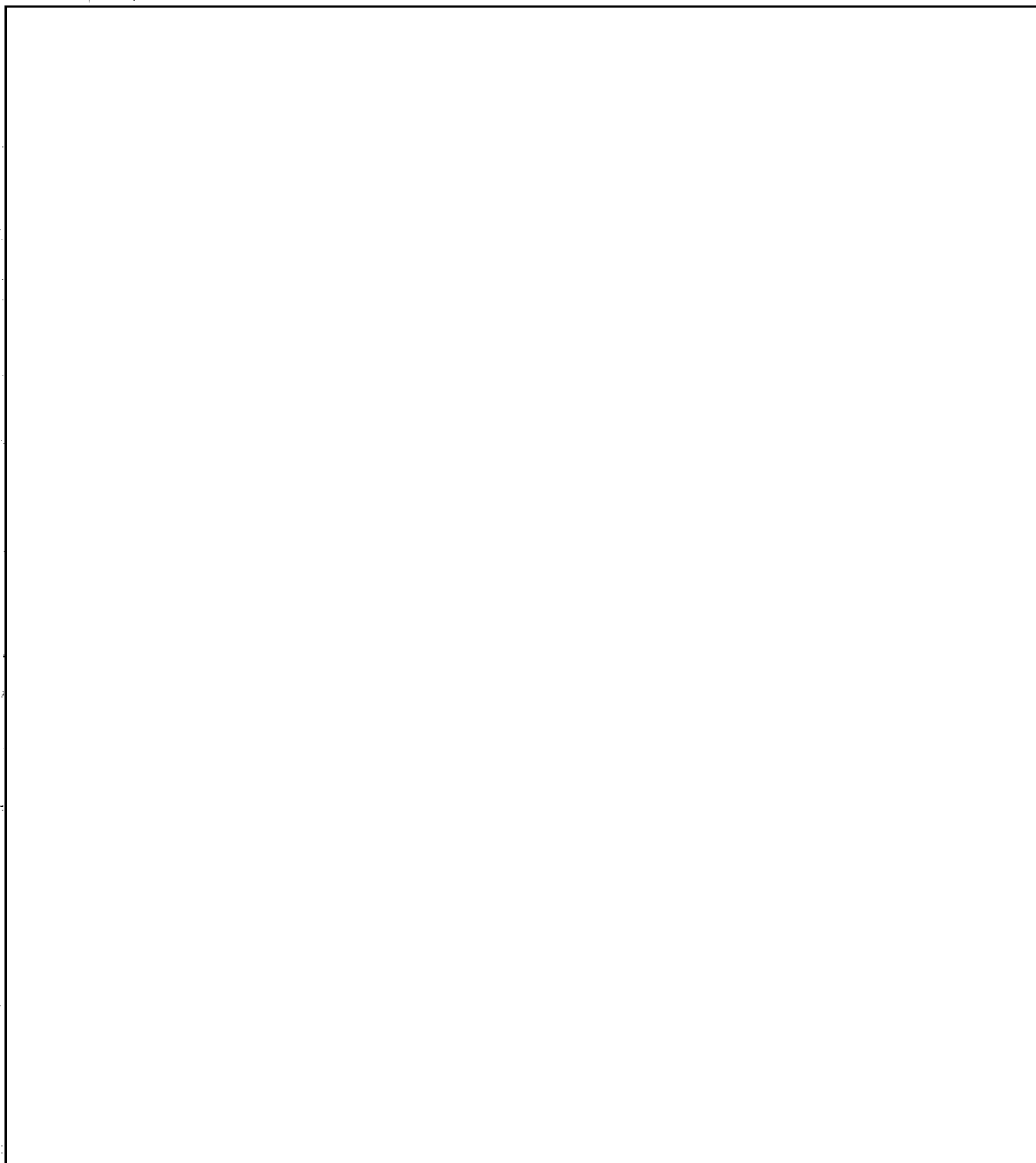
Khrushchev/Castro relationship" and other such explanations. As long as the SAMs are there, there is always the possibility they will be used, or we will be threatened with their use, and this will be done at a time when they are willing to take the risk of another confrontation with the United States. I therefore feel that we must not, under any circumstance, dismiss the possibility of a second confrontation of a type encountered last October. I have the same feeling about the presence of the SAMs in Cuba now as I did last Fall. In our thinking and planning concerning Cuba, we must not lose sight of the fact, however remote, that the Soviets can reintroduce missiles in Cuba, accept the risk of confrontation, and confront us with the prospect of war (which would present a difficult decision to us) or negotiations at higher price than was Khrushchev's original objective. If the situation were reversed, there would be pressure in this country from certain "extremists" to take such a risk of confrontation and I feel that Khrushchev might very well be under exactly the same pressure. For this reason this possibility must not be discounted and all measures of protection against this surprise must be taken.

7. From the above it seems to me that a high priority should be attached to developing measures directed toward removal of

Soviet troops and larger items of equipment from Cuba. All possible diplomatic maneuvers should be made. If an opportunity for a "trade" on reasonably favorable terms develops, this should be explored, harassment of installations encouraged, and feints or, for that matter commando raids to steal Soviet KOMAR vessels or SAM missiles, should be considered. Warnings of this possibility might be one means of suggesting to the Soviets that some of their sensitive scientific equipment is exposed and hence they might consider removing it. 25X6
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10. The most extreme measures which would be directed against the population are feasible, but I am against them on humane and moral grounds. They would be attributable to the United States. They would stand as a black mark on our record for all time. They would cause untold hardship to thousands, perhaps millions, of individuals who are

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not responsible for Castro and can do nothing about him, and they would not necessarily answer the "Castro-Communist problem".

It seems to me that if the problem is so serious that we must resort to these measures, then we should face up to a direct confrontation, a blockade and an invasion.

II. Bringing Castro down: Measures discussed above will create for Castro and his regime great hardship but as mentioned will not bring him down. However, they will cause distress and dissension within his organization and will tend to destroy its monolithic feature. This would present the opportunity of splitting his regime at the top and catalyzing a revolt on the part of all, or a substantial segment of, his military. The result could be a military take-over typical of Latin America, the establishment of a military dictatorship friendly to the United States and to the Western Hemisphere nations, unfriendly to the Soviets and it would be non-Communist. If successful, the military regime could then force the withdrawal of Soviet military personnel and a great deal of equipment. It could solve this problem but would present us with serious problems of economic aid, sugar quotas, resolving the problem of confiscated property and all the rest. A combination of economic sanctions and harrassment on the one hand, and a

successful effort to disenchant his military leadership and cause a revolt and military takeover on the other seems to be the only course open to bring Castro-Communism down and remove the Soviet threat. The prospect of an effective uprising of the people against Castro seems remote if he retains control of his military and security forces. Small uprisings would be suppressed as they are now. Large uprisings would probably result in a blood bath. Therefore, I conclude we must split Castro's military organization to insure the success of a revolt against him.

12. Splitting Castro from Moscow -- This might be done. Perhaps Castro's proclamations and embrace of Communism is really a recent development. He is known to have been a radical, a liberal, a revolutionary, but not a hard-core Communist. He disclaims being such at the present time but he has embraced Communism publicly. He claims he is not a satellite, that he is independent, that he will dispose of the Soviets at his convenience, and that he seeks a rapprochement with the United States. Whether this should be done or could be done remains obscure. It is not in the American tradition ever to trust a man who has been deceitful, ambitious, and an avowed enemy. On the other hand, Communists have changed their stripes, e. g., Chiang Kai-shek and Betancourt; and dictators have changed their orientation, e. g. Nasser. All of the problems of sugar quotas, aid, etc., would immediately arise under this plan and would be far less acceptable to the American people and to the Congress than would be the case if Castro were disposed of. Nevertheless consideration should be given to a highly

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compartmented, carefully planned and managed program to defect Castro from Moscow. An existing channel might be used for this purpose and this effort might be made concurrently with all other steps mentioned above.

13. Relations with the people of Cuba. Constructive, dynamic and positive programs must be developed and implemented to breathe hope into the Cuban people. This is not for the purpose of creating an uprising among the people for it appears to me that as long as Castro controls the military and the internal security forces, a popular uprising that assumed serious momentum might result in a blood bath. The program should be designed to let the people of Cuba know that they have a future and that the United States is determined to provide that future for them. There are many ways of developing such a program and many convincing thoughts which can be projected to the Cuban people by various means of transmission. All of this is essential to the success of any long range dynamic United States program for the removal of Castro and Communism from Cuba.



DEPARTMENT OF STATE
WASHINGTON

May 27, 1963

MEMORANDUM FOR: The Honorable John A. McCone
Director, Central Intelligence Agency

The White House has requested the State Department to distribute the attached memorandum to each member of the NSC Standing Group prior to the May 28 meeting.

William H. Brubeck
Executive Secretary

Attachment:

Copy No. 5 May 27 memorandum on Possible
Soviet Initiatives to End US Aerial
Reconnaissance Over Cuba

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May 27, 1963

MEMORANDUM FOR THE NSC STANDING GROUP

SUBJECT: Possible Soviet Initiatives to End US
Aerial Reconnaissance Over Cuba

Problem:

To evaluate considerations involved and the various options available to the USSR and Cuba in seeking to end US aerial reconnaissance over Cuba.

Discussion:

The Soviet Union, and still more Castro's Cuba, wish the cessation of US overflights of Cuba. The issue at present is only in the background, and the Communists evidently do not feel it is desirable to raise their objection prominently until they think there is something they can do about it. They evidently recognize that the shooting down of a reconnaissance plane would probably provoke active countermeasures to which they could not effectively respond, and moreover not end the surveillance. Assuming that they continue to believe that they cannot with impunity use direct action to end the overflights, they may nonetheless turn to other measures in an effort to compel us to stop further reconnaissance. Moreover, they

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may believe that some such other measures may, even if unsuccessful in themselves, create a better foundation for shooting down a plane later.

Alternative Courses of Action:

There appear to be six possible lines of political action open to the Communists in attempting to get us to call off the aerial reconnaissance of Cuba:

(1) Cuba could protest in the United Nations General Assembly and/or Security Council, calling for condemnation of the US action and for a cessation of the flights.

(2) Cuba could bring action before the International Court of Justice, or seek UN action requesting an advisory opinion from the ICJ, calling for cessation of the flights.

(3) The Soviets could initiate pressures elsewhere--such as Berlin, privately or publicly tying the new pressure to the continuing overflight of Cuba, and offering to relax the new point of tension in exchange for cessation of aerial reconnaissance of Cuba.

(4) The Soviets could privately offer to withdraw all Soviet military personnel from Cuba in exchange for quiet dropping of aerial surveillance by the US.

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(5) The Cubans could publicly propose a trade-off allowing ground inspection in exchange for an end to aerial inspection, but we are sure they would not do this unless they also added in demands for ground inspection in Florida or elsewhere in the Caribbean.

(6) The Cubans could, with discrete Soviet assistance, initiate aerial reconnaissance of some other area in the Caribbean--say, Guatemala or Nicaragua--on the grounds that offensive military action was being prepared in those countries (as it had been before the Bay of Pigs attack), justifying and requiring Cuba to undertake this peaceful aerial inspection. Then, the Cubans could offer to call off their surveillance if we call off ours.

Action in the United Nations:

A Cuban protest in the United Nations, vigorously supported by the other Communist powers, would open up an issue which most people have forgotten. They would probably gain some support for the idea that indefinite aerial overflight and reconnaissance was an undue infringement of sovereignty and should be stopped. The US defense would rest on two bases: The OAS Resolution of October 23 authorizing such action, and the de facto resolution of the October crisis in which with forbearance the US settled for unobtrusive aerial reconnaissance

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instead of insisting on ground inspection. Therefore, it would not be necessary to rest our case on a general right to reconnaissance, and this should hold in line many states which would be unwilling to agree to any position which justified aerial reconnaissance over their own countries.

It seems unlikely that the Cubans could get the necessary two-thirds of the General Assembly or a majority of the Security Council to support them (in the latter case, of course, we would veto). In fact, we believe that the Cubans, and the Soviets, would not expect an initiative in the UN to end the overflights, and probably not even to garner enough votes to be useful propaganda against the US action.

Action by the ICJ:

Cuba has not agreed, and is not likely to agree, to compulsory adjudication by the International Court. If she did, there are a number of counter-suits which the US could initiate (expropriations of US properties, etc.). However, while the Cubans could not be sure of winning their case on the overflights, we could be even less sure of winning. Our defense would be the OAS Resolution of October 23, but if Cuba announced its complete severance from the OAS (which it has not yet done), it is doubtful that we would win.

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On balance, we think it unlikely that Cuba would submit its case to the ICJ, but if they did and we conceded jurisdiction to the Court, we could be in trouble.

Counterpressures:

The Soviets could initiate pressures elsewhere. In particular, they could attempt to gain support from our European Allies by making an end of reconnaissance over Cuba the price for warding off a new Berlin crisis. There are certain precedents for the Soviet policy of counterpressures, which would be more likely in a situation where the Soviets could better control the degree of tension than they could, for example, when there was a real crisis over Cuba. Nonetheless, it would appear unlikely that the Soviets would expect, or would succeed in rallying, much support in the West for a sellout on Cuban reconnaissance in exchange for relaxation of artificially generated tensions elsewhere.

Inducements:

If the Soviets and Cubans are sufficiently desirous of ending the overflights, they might approach us privately with an offer of some expendable quid pro quo. In particular, if they should decide that the continued presence of Soviet military personnel was not

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essential, they could offer the complete withdrawal of such personnel in exchange for an end of the overflights. They would, of course, have to consider that if the US refused, they would have tipped their hand on the negotiability of the continued Soviet military presence. Nonetheless, if they are sufficiently concerned, and do not believe they can force their way, they may attempt to buy it.

Presumably, our response would be insistence that the overflights continue until there was also active on-ground inspection, and that Soviet offers to withdraw their military only reflected growing awareness of the untenability of their position in having military men in Cuba in the first place.

Bargaining:

The Cubans could announce with much fanfare their readiness to accept ground inspection if aerial surveillance were ceased and if ground inspection were made of places which they believed were being used to mount offensive action against Cuba: the Bahamas, Florida, Puerto Rico, and perhaps others. If this approach followed protests by Cuba or in the UN, it might persuade some that the Cubans had a reasonable solution as well as a justified complaint.

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The US defense would be acceptance in principle of the encouraging Cuban indication of readiness to substitute effective ground inspection for aerial coverage, but rejection of any tie-in of the extraneous matter of alleged support for offensive actions against Cuba, and noting (in backgrounding) US clamp-down on Cuban exile activists. The OAS members would probably hold firm with us, but some might be willing to entertain the Cuban offer plus inspection against subversive training and export by Castro. All in all, the Cubans would be less likely now than in November to stir up much support for their position, and would probably not effectively create an impression of reasonableness sufficient to provide political justification for unilateral action to stop the overflights.

Sauce for the Goose:

The Cubans could tacitly embrace our own concept for justification, and turn it against us. They could announce that they were mounting aerial reconnaissance over some area where offensive forces had previously been mounted against them. Conceivably, they could carry reciprocal action to the point of announcing in advance their plans to overfly Dade County or Puerto Rico, but recognizing the greater risk in this initiative it seems more likely that they would pick

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Nicaragua, Guatemala, or the Dominican Republic for MIG-17 or B-26 overflight. They would probably announce their intention in advance in order to undercut our use of presumptive bombing attack as justification for immediate interception. If the United States undertook or supported the interdiction of Cuban reconnaissance flights, the Cubans would have a much stronger basis for an appeal to the UN complaining over Yankee attempts to apply a double standard. If we did not interfere, there would be substantial repercussions outside of Cuba and some pressures to agree to mutual cessation of reconnaissance overflights. Again in this case, the chief US defense would be the OAS Resolution of October 23.

Conclusions:

This quick survey of possible Communist initiatives to end US aerial surveillance of Cuba is not exhaustive, but includes the half-dozen most feasible courses they might consider. None of them appears so sure of success as to be immediately attractive, but such decision is also a product of the intensity of their desire to end the overflights, which it is difficult to measure.

The possible courses of action are not necessarily mutually exclusive. The Communists could concert a carrot and stick combination

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of UN action and pressures, for example. They could try several courses in turn. A counterpressure on our access to Berlin would pose greatest danger of direct confrontation with the USSR and would be the course most involving pressures on our NATO Allies.

Attached is an illustrative scenario, couched in terms of a memorandum to Khrushchev from his "staff," outlining one way in which the Soviets might combine some of the possible options described above.

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MEMORANDUM FOR COMRADE KHRUSHCHEV

SUBJECT: Considerations Involved in Eliminating US Reconnaissance
Over Cuba

1. Problem.

To evaluate the considerations involved in a suggested course of action which seeks to eliminate US reconnaissance flights over Cuba.

2. Background.

a. When our miscalculations of US reaction to our emplacement of missiles in Cuba led to a critical confrontation in October 1962, common sense and ideological doctrine dictated immediate tactical retreat. Your decision to remove the missiles and aircraft from Cuba, together with the promise that adequate verification of removal and safeguards against re-entry would be provided, defused the critical aspect of the situation. Subsequently, it was necessary, as the talks of Comrade Mikoyan with Castro proceeded, to restore our image and win Fidel's reluctant acceptance of our unilateral decisions, by agreeing that we would not insist on on-site or in-port inspections. The only way in which this could be accomplished was to work out, tacitly, with the capitalists in Washington, an arrangement whereby we took no further action on US reconnaissance flights and the US did not press, through force, its demand for on-site inspection.

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b. This arrangement solved our immediate tactical problem. Now, however, the question arises whether the time has come to seek to eliminate the US surveillance flights which continue to exacerbate our relations with Fidel and which set a dangerous precedent by creating the impression before the world that capitalist nations have the right to protect themselves by conducting espionage operations through socialist skies.

3. Considerations.

a. Not only the problems cited above, but also the risk that the US may seek to use her U-2 flights to create an incident as an excuse for further action against Cuba, make it desirable to eliminate such flights or to take the initiative in creating an incident in order that we may structure it to suit ourselves.

b. The US domestic political situation and the USG's concern over our political flanking maneuvers in Latin America is such that the capitalist government may find itself increasingly motivated to take forceful action to overturn the revolution in Cuba. The October missile crisis taught us that, contrary to the advice of certain socialist circles, the US capitalist government can still find the courage to use force.

c. They are reinforced in their motivation to do so, and we in turn are restrained, by our mutual knowledge that the capitalist

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world at the present time has appreciably greater strategic power than does the socialist world.

d. Certain circles in our Government point to the need to take a hard line not only to support Fidel, but also to prove to the Chinese Communists and those who follow their lead that we Soviet Communists have not become soft. These circles, including certain deviationist leaders, even impugn the fitness of you, Comrade Nikita, to continue as our leader. Other circles clamor that the resource allocation problem is critical and that we must find a way to improve the yearning of our socialist citizens for an improved standard of living. And as you know, each time we heat up our relations with the decadent West, they tend to pull together, increase their defense expenditures, and force us to continue or increase our heavy defense burden.

4. Conclusion.

a. Cessation of US reconnaissance flights over Cuba is highly desirable, but any scenario for accomplishing this would have disadvantages and risks.

b. The capitalist preponderance of power makes a major confrontation unwise; our internal problems make it undesirable.

c. Ideological considerations make it necessary that we demonstrate firmness of resolve and Communist offensive spirit in connection with working out any detente with the US on this matter;

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yet the orchestration of this offensive must minimize the opportunity for the US to capitalize on our moves to overturn or further to harass Castro.

5. Optimum Course of Action.

If the Presidium decides that the elimination of U-2 flights over Cuba is sufficiently important to hazard the risks and accept the disadvantages, the following scenario is recommended:

a. The Soft Beginning. The offensive would be initiated by Fidel (to maintain the David/Goliath image), who would go to the UN with a demand that US violation of Cuban sovereignty by aerial overflight be discontinued. We would come to his support, reiterating the great efforts we had made to save the peace of the world by removal of our missiles and aircraft which were there to protect him from US aggression. We would remind the world that our patience is not unlimited and of the action we were forced to take against US U-2s which operated over our Fatherland in an earlier era. Pressures would be brought to bear from all circles. We would let it be known privately that the sole reason for the retention of USSR troops in Cuba is to protect that beleaguered nation from the designs of the US and that a detente involving the removal of these troops, cessation of U-2 flights, and a UN guarantee of Fidel's status sans offensive armaments could be worked out. (In actual fact, we should try to get a situation in

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which the U-2 flights stopped immediately and troop removals commenced in phases thereafter. This would appear to be a socialist victory and might permit us to find some pretext later for retaining a lower level of troops in Cuba.) We might have to settle for some arrangement in which the frequency of U-2 flights was slowed down as troop removals took place and ended when the last of our troops were out. It might also be necessary to permit a UN observation group to enter Cuba. We could insist in this event that the same group have access to other Caribbean countries which have been a base of subversion against Castro. Or alternatively, we could achieve a victorious connotation by insisting that the UN presence in Cuba provide for the integrity of Fidel's regime and Cuba's sovereignty.

b. Phase Two--Increasing Pressures. Having stated a convincing case, in the UN and before the world, of the inadmissibility of continued US reconnaissance over a sovereign and independent state, and the reasonableness of our proposed solution, and in the absence of US movement toward our proposals, we should accentuate pressures. The reasoned nature of our package should minimize the risk of US escalation against Castro as our pressures increase.

Our primary purpose during this phase would be to sow disarray among the US and her allies. We should let the UK in particular know privately that we are reluctant to do so but that action against

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Berlin may be necessary to bring the US around. We should urge the reasonableness of our Cuban package upon them, pointing out that they are really captive to US interests there which are based on concerns contrary to UK interests and no longer justified. We should hint that progress on test ban and increased trade are possible if we can achieve the better climate that cessation of Cuban overflights would bring. We should let the French and Germans know that Berlin is in new jeopardy because the US has refused to accept a reasonable proposal for Cuba and that our patience is not unlimited.

After these pressures have been brought to bear both privately and through the full force of our apparatus, we should let it be known that we are about to turn over the SAM sites to the Cubans and can no longer be responsible for their restraint. The frequency of our aerial penetrations of Norway, Alaska, and other NATO areas should be increased. These actions should be accompanied by new private warnings to the allies that harassments at Berlin must soon be forthcoming.

c. Final Phase--Will the US Blink? Our measures to date will have consisted of the careful spelling out of a reasonable proposal despite US intransigence, and of verbal pressures. The prospect seems excellent that the US will have been brought to the conference table at this point. If she has not, we will face the painful choice of terminating our scenario unsuccessfully or of risking more drastic

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measures. Our final choice would have to depend on our over-all evaluation of the degree to which we had been able to splinter the Western alliance, and of the resolve of the US Government. One choice that would seem clearly ruled out is the shooting down of a U-2, since that could provide the US with the excuse she may have been looking for to eliminate Castro. (For that reason, despite our threats to do so, we should not turn over the SAMs to Fidel in this time-frame, unless you have already become committed to do so, during his recent visit.) On the other hand the peculiar legalistic/Christian mores of the West would make it difficult for the US to justify an attack on Cuba for action taken by us elsewhere. One such action which could serve to establish the bona fides of our intentions, with the US and her allies, would be the shooting down of a US ECM espionage aircraft with the claim that it had violated our territorial waters. But the initiation of harassments at Berlin, of measured and careful nature, and after adequate and subtle development, would be more likely to provide the variety of pressures on the US that we would need. These interferences should not be escalated to serious levels but rather should be conducted in such a way that if the US does not give in over Cuban overflights we can use that intransigence to win some small improvement re Berlin.

d. Minimum Settlement. Our orchestration should not be initiated unless the accomplishment of our objective for Cuba seems

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reasonably probable. On the other hand, recognizing the enigmatic quality of the political equation involved, we must consider the minimum settlement we can accept. This is judged to be one in which you, Comrade Khrushchev, would be able to show some improvement over the status quo ante either in Cuba or in Berlin. If the conflicting interests of the US and her allies are skillfully played and pressures are artfully applied, this minimum objective should not be in doubt. The US Government could not conceivably escalate any of the measures in our scenario above, in one giant leap, into an invasion of Cuba. Our line of retreat should be assured by watching for the initial moves the US might initiate in seeking to justify that invasion. If our orchestration should lead to unmistakable signs of such US measures, we should seek promptly to settle for the minimum objective of having raised doubts of the responsibility of US policy in risking war and in aiming at aggression in the Caribbean.

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27 MAY 1963

MEMORANDUM FOR: Director of Central Intelligence

THROUGH: Deputy Director (Intelligence)

SUBJECT: U.S. Department of Agriculture Paper,
"The World Price of Sugar"

REFERENCE: Memorandum for the Director of Central Intelligence,
from the Assistant Director, Research and Reports,
subject, "Cuban Activity in the World Sugar Market,"
dated 24 May 1963

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1. This memorandum is for your information and background use in connection with the Standing Group meeting of 28 May. The attached paper, "The World Price of Sugar," was obtained today from Mr. James L. Sundquist, Deputy Under Secretary of the Department of Agriculture. This paper was prepared by the Department of Agriculture in response to National Security Action Memorandum No. 244, 15 May 1963, from Mr. McGeorge Bundy to the Secretary of Agriculture, on "The Future of the World Sugar Market," and will be discussed by the Standing Group tomorrow.

2. We are in general agreement with the Department of Agriculture's paper, which incorporates material from CIA/ORR publications furnished to Mr. Sundquist, as well as suggestions we made on his first draft. However, we did not see Tab B, "World Sugar Production by Major Countries," until today, and believe its forecast of the likely level of Cuban sugar production is too low. The comparative estimates are as follows, in thousands of short tons:

	<u>1963-64</u>	<u>1964-65</u>	<u>1965-66</u>
Department of Agriculture	3,600	3,400	3,300
CIA/ORR	4,600	4,800	5,000

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3. This difference in the estimated future Cuban crop does not affect the basic conclusions contained in the Department of Agriculture's paper.

4. Mr. Sundquist has not seen the referenced report on Cuban activity in the world sugar market. He is, therefore, unaware that the Cubans have been operating in the London futures market. Our latest information, covering transactions as of 7 May, is that the Cubans have sold at least 200,000 tons for delivery from December 1963 to August 1964. Further, they have liquidated their "long" position of 25,000 tons of sugar for near-term contracts. We know of at least three million pounds sterling put up to meet margin requirements by the Cubans. As of this date, these transactions appear to have resulted in a substantial net loss, which Cuba may recoup if there is a sharp price drop before the sugar futures contracts must be closed out.

5. In my referenced memorandum, we estimated Cuban foreign exchange earnings from 1963 sugar sales at \$120 to \$200 million from the Free World and \$175 to \$220 million from sales to Soviet Bloc countries and China. Recent press reports state that, during his recent Moscow visit, Castro was successful in persuading the Soviets to bring the price paid to Cuba into line with world prices for sugar, rather than the four cents a pound on which our earlier estimate was based. We do not know what "world price" will be agreed to, or whether the new price concession applies to all 1963 sales rather than to the undelivered balance. Further, there has been no Chinese or European Satellite announcement of parallel price concessions to Cuba. However, if all of these countries agree to pay world prices on 1963 deliveries, and if the agreed world price were 10 cents a pound, then Cuban earnings from sugar sales to the Soviet Bloc and China would amount to between \$440 and \$550 million. This is probably an outside estimate, which cannot be refined until we receive more information.

6. The Soviet agreement to pay world prices for Cuban sugar makes it most unlikely that the USSR will sell significant quantities of sugar in the West from its surplus stocks. To the Cubans, the Soviet price concession means a substantial boost in export earnings, although the net benefits are less certain because Cuba has been

receiving foreign exchange aid from the USSR, which amounted to over \$200 million in 1962. Possibly the new price concessions are designed to offset Cuba's payments deficit and eliminate the need for further balance of payments help from the USSR.



OTTO E. GUTHE/
Assistant Director
Research and Reports

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Enclosure:

"The World Price of Sugar"

May 24, 1963

THE WORLD PRICE OF SUGAR

The Situation

The world price of sugar has risen to present levels because of a sharp drop in world supply in the face of steadily rising demand. The poor European beet crops of the last two years coincided with the severe reduction in Cuban production and the loss of most of that production to the communist bloc.

Cuban production has fallen from a 1961 level of 7.5 million short tons* to an estimated 3.8 to 4.2 million this year. Cuba has bartered more than this output to the Sino-Soviet bloc (3.3 million tons to the Soviet Union, 1.3 million to China, and 700,000 to the satellites), but has been permitted to sell about 1.25 million tons in the free world market so far this year. Following are world production and consumption figures, in millions of short tons:

Crop year	Production	Consumption	Stock change
1957-58....	49.1	49.0	+0.1
1958-59....	54.5	51.0	+3.5
1959-60....	53.9	53.0	+0.9
1960-61....	60.1	55.0	+5.1
1961-62....	56.0	57.0	-1.0
1962-63....	54.3	58.5	-4.2

While these figures suggest that the 1962-63 decline in stocks is only an adjustment from the earlier buildup, it is complicated by the fact that most of the 1960-61 buildup was in the Soviet Union and its satellites.

As always, the real shortage is intensified by scare-buying. Beginning late last year, sugar users and distributors in this country have added 600,000 tons to their stocks, and the buying rate since April 1 has been up 30 percent. Presumably, inventory-building is also going on in the other developed countries.

At the same time, some supplies are being held off the market in producing countries in anticipation of higher prices.

Among countries with heavy stocks is the Soviet Union, which has been taking most of the Cuban output even though it has not permitted enough rise in consumption levels to utilize the additional quantities.

* All figures in this report are in short tons.

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Its stocks at the end of 1962 are estimated at 4 to 4.5 million tons--about 50 percent above normal. Poland also had above normal supplies. The Soviet bloc, before it obtained the Cuban supplies, had been a net exporter of sugar.

Tab A shows recent price movements, Tab B charts world production and consumption, and Tab C breaks the production figures down by countries.

The Outlook

There is no prospect for relief in the tight supply situation until this year's beet harvest, at the earliest, and little prospect for a really easy balance between supply and demand for 3 or 4 years--assuming that a substantial additional Cuban supply does not re-enter the world market. It will probably be much longer before the world sugar price again reaches the low levels of last year.

Unfortunately, this year's beet crop in Western Europe got off to a slow start because of unfavorable weather and the yield may be again less than normal. Current high prices are encouraging some expansion in practically all areas of sugar beet and cane production, but bringing in new cane acreage requires 18 months and new beet acreage almost as long. No immediate large-scale expansion appears to be underway anywhere in the free world.

Scare-buying has probably not yet ended. At the time of the Korean crisis, inventory-building among U. S. users and distributors reached a million tons, and only 60 percent of that potential over-buying has occurred so far.

When the supply situation eases, prices can move downward as quickly as they have been moving up. The worst should be over when this year's beet crop is harvested in October. But a poor European crop could mean another year of extraordinary high prices. The futures market on deliveries for July and September 1964 has recently been rising rapidly, indicating that traders expect no real relief within 16 months which is far into the future as the market extends.

The Soviet Union could bring the world price down at any time by releasing its excess stocks for sale in the world market. If the world price began to fall without such action, Soviet dumping could accelerate the down trend. We have no evidence now, however, that the Soviet Union contemplates any substantial sales. It has been suggested that if an authoritative estimate of the size of Soviet stocks were made known, this alone might affect price.

Tabs B and C project anticipated world production and consumption and production by countries through 1965-66, and Tab D provides a commentary on prospects for expansion in the principal producing countries.

What might be done to alter this outlook is discussed under the headings which follow.

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Increasing Domestic Production

All restrictions on sugar beet acreage have been removed for 1963, 1964, and 1965. U. S. production of beet sugar this year should reach a record level of 2.9 million tons--compared to 2.6 million last year--and should increase further in the next two years. Processing capacity is being expanded from 3 million to at least 3.3 million tons by 1965. There appears to be no need for additional incentives beyond the prospective high prices.

Acreage restrictions on mainland cane have been removed for 1963 and 1964. This should result in enough additional production in Florida to fill the mainland cane quota under the Sugar Act. To remove restrictions for 1965, as has been done in the case of beets, would provide additional incentive to produce, but the production could not be marketed within the statutory quota. The producers would probably be willing to take the risk if assured by the Administration that it will recommend the necessary quota increase when the Sugar Act is revised next year.

Hawaii, Puerto Rico, and our offshore possessions have no restrictions on either acreage or marketing.

Increasing Foreign Supplies

This question breaks into three sub-questions:

Long-Range Expansion. Many parts of the world have potential for increased sugar production from cane, but bringing new acreage into production requires about 18 months. Opportunities also exist for expansion of production of beet sugar, which if started now could be accomplished in a slightly shorter time. Construction of processing capacity takes about the same length of time. New investment may take 20 years of reasonably good prices to pay off.

Spurred by present high prices, some countries are expanding production (See Tab D). However, they are held back by, among other things, uncertainty as to markets and prices in 1965 and thereafter. The United States is not in a good position to offer guarantees as to long-range markets. The Sugar Act contains limitations on each country in the form of country quotas. And, the global quota is reserved for return to Cuba after Castro. We would indeed be embarrassed if we pushed other countries to fill the gap left by Cuba and then had to find room for resumption of Cuban deliveries. We would be embarrassed also if we pressed these countries to expand and the world price in a few years fell to levels approaching those of a year ago, when sugar production was being curtailed in many countries because it was unprofitable.

Even Philippine companies, which enjoy special access to the U. S. market because of a preferential tariff rate and a guaranteed quota until 1974, have been expressing reluctance to expand without assurances beyond that date.

1974

- 4 -

Short-Range Production Increases. On existing acreage, possibilities exist for improving cane yields per acre and increasing the recoverable quantities of sugar per ton of cane--by such means as increased use of fertilizer, modernization of existing mills, increased use of labor and improvement of cultural and factory practices. Moreover, where unused processing capacity exists, using that capacity requires only the investment necessary to add new acreage or substitute more productive for less productive land. With an attractive market opportunity for any increased output, these immediate short-range measures appear to be appropriate areas for United States assistance. AID and USDA are asking the AID missions and agricultural attaches to explore immediately the possibilities of, and need for, dollar and technical assistance for short-range measures. The Export-Import Bank has also been advised of the desirability of actions in these directions.

Pressure for Release of Supplies. Where supplies are being held off the market in anticipation of still higher prices, diplomatic pressure might be effective. State has already made strong representations to Manila in an attempt to pry loose some stocks that are known to be held there.

Restraints on Demand

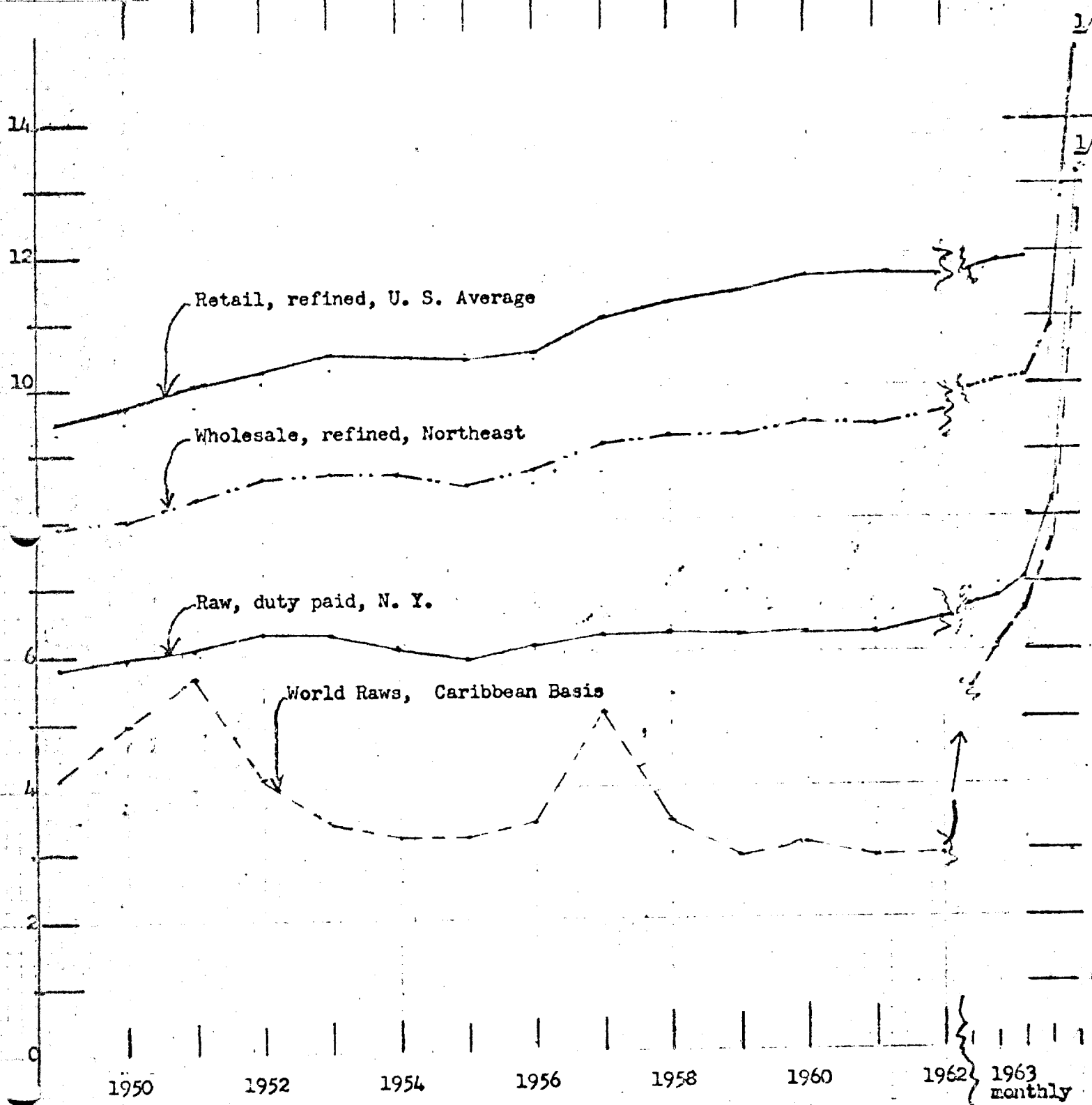
Inventory-building and scare-buying are difficult to deal with on a world-wide scale. To impose controls in the United States alone would have an effect on the world price, of course, but besides being highly controversial and unpopular, controls would require legislation and administrative machinery--with all the delay they would involve. The sugar companies have been doing some informal allocation of supplies among their customers, but stocks in the hands of industrial users and wholesalers and retailers are probably close to a million tons compared to a normal level of 400,000.

If housewives were to panic, severe additional price pressures could develop. So of this date, however, there has not been any sustained run on the grocery stores.

Some minor benefit might come from revising regulations, mainly those of the Food and Drug Administration, which limit the amount of sugar substitutes--primarily, corn sirup--which can be used in certain products. However, corn sirup production capacity is currently strained to the point where the principal producers have been declining additional orders--so this avenue offers no major hope of immediate relief.

SUGAR PRICES — RAW AND REFINED

CENTS PER POUND

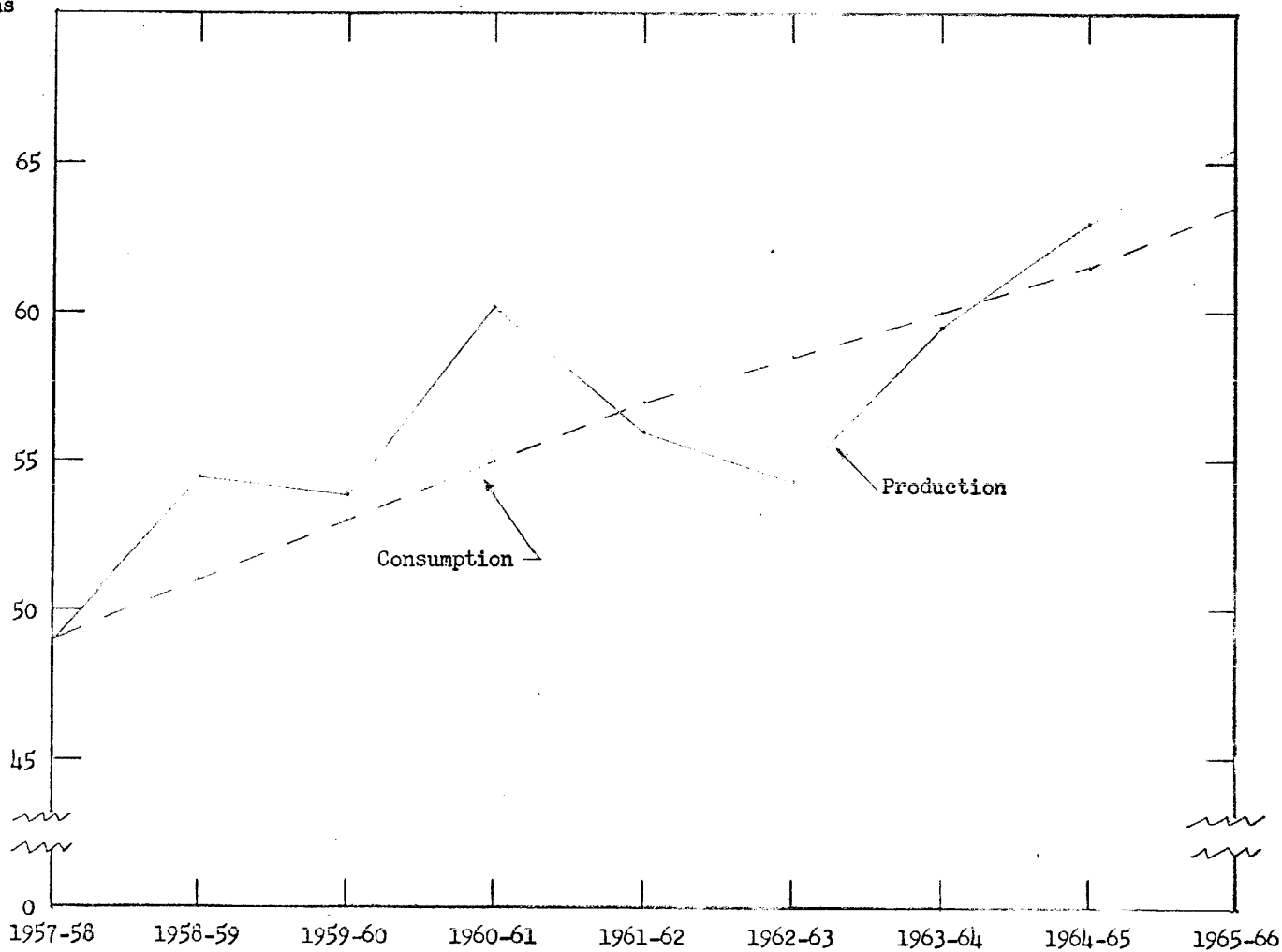


1/ May 22, 1963

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ESTIMATED WORLD SUGAR PRODUCTION AND CONSUMPTION

Million
short
tons



Consumption for 1957-58 through 1962-63 represents trend based on data
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WORLD CENTRIFUGAL SUGAR PRODUCTION BY MAJOR COUNTRIES
(1,000 Short Tons)

<u>Country</u>	<u>1960-61</u>	<u>1961-62</u>	<u>1962-63</u>	<u>1963-64</u>	<u>1964-65</u>	<u>1965-66</u>
United States <u>1/</u>	5,297	5,426	5,662	6,165	6,390	6,500
* Cuba	7,459	5,400	3,800	3,600	3,400	3,300
Dominican Republic	962	960	900	1,000	1,100	1,200
Mexico	1,603	1,649	1,791	2,000	2,100	2,200
West Indies (British)	998	941	1,027	1,100	1,100	1,200
Other	<u>951</u>	<u>1,050</u>	<u>967</u>	<u>1,135</u>	<u>1,210</u>	<u>1,200</u>
Total, North America	17,270	15,426	14,147	15,000	15,300	15,600
Argentina	903	754	858	975	1,000	1,025
Brazil	3,804	3,928	3,533	4,200	4,300	4,400
Peru	891	904	827	950	975	1,075
Other	<u>1,309</u>	<u>1,396</u>	<u>1,574</u>	<u>1,600</u>	<u>1,825</u>	<u>1,900</u>
Total, South America	6,907	6,982	6,792	7,725	8,100	8,400
EEC Countries	7,590	5,641	5,448	5,650	6,100	6,400
United Kingdom	1,082	926	902	1,000	1,050	1,100
Other	<u>1,935</u>	<u>1,758</u>	<u>1,580</u>	<u>1,850</u>	<u>1,950</u>	<u>2,000</u>
Total, Western Europe	10,607	8,325	7,930	8,500	9,100	9,500
Eastern Europe	5,228	4,710	4,319	4,600	4,900	5,100
USSR	6,600	7,300	6,900	7,500	7,850	8,200

1/ Including Puerto Rico and the Virgin Islands

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<u>Country</u>	<u>1960-61</u>	<u>1961-62</u>	<u>1962-63</u>	<u>1963-64</u>	<u>1964-65</u>	<u>1965-66</u>
Mauritius	260	610	672	700	750	800
South Africa	1,052	1,174	1,274	1,350	1,550	1,650
Other	<u>1,208</u>	<u>1,209</u>	<u>1,277</u>	<u>1,450</u>	<u>1,700</u>	<u>1,850</u>
Total Africa	2,520	2,993	3,223	3,500	4,000	4,300
Australia	1,504	1,512	2,018	2,300	2,450	2,650
India	4,042	3,775	3,177	3,700	4,000	4,200
Philippines	1,563	1,668	1,805	1,950	2,000	2,100
Taiwan	1,018	800	1,100	1,200	1,350	1,400
Other	<u>2,818</u>	<u>2,528</u>	<u>2,911</u>	<u>3,525</u>	<u>3,950</u>	<u>4,050</u>
Total, Asia and Oceania	10,945	10,283	11,011	12,675	13,750	14,400
World Total	60,077	56,020	54,322	59,500	63,000	65,500

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Explanatory Notes to accompany table on

World Sugar Production by Major Countries and Continents,
1960-61 - 1965-66

With the exception of Cuba, sugar production is expected to increase in all important producing countries through 1965-66.

The expected increase in world production from 1962-63 to 1965-66 is considerably larger than expected increase in consumption. The expected production increase in non-communist areas is about 9,000,000 tons, 3 times that for communist countries.

Cuba-- Further decreases expected for the next 3 years because of economic and political confusion, loss of trained personnel, and inability to properly repair mills and farm machinery which originally came from the United States. The decline, however, is expected to be at a considerably slower rate than in 1961-62 and 1962-63.

United States-- Expected to increase by nearly 1,000,000 tons by 1965-66, primarily in the sugar beet and mainland sugarcane areas. Limited resources restrict expansion possibilities in Hawaii and Puerto Rico.

Dominican Republic-- 1962-63 output reduced by economic and labor difficulties. Moderate expansion expected over the next 3 years.

Mexico-- Plans have been announced for expansion but most is consumed domestically and quantity available for export will increase considerably more slowly than production.

West Indies (British)-- Modest increases expected.

Brazil-- Potential for increase in large. Actual increases will be limited by the uncertain economic outlook, but even so a substantial increase is projected.

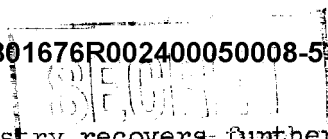
Peru-- Limited supplies of irrigation water are a factor restricting the increase.

Common Market (EEC)-- A considerable part of the 1,000,000-ton increase that is projected will represent recovery from the low yields of 1961-62 and 1962-63. The projected 1965-66 production is well below the bumper output of 1960-61. However, excess production in 1960-61 caused considerable economic difficulty in the beet industry and indications are that these countries wish to avoid over-expansion again.

United Kingdom-- Expected to increase to approximately the size of the bumper 1960-61 crop.

East Europe-- An increase of about 800,000 tons by 1965-66 will leave output still slightly below the unusually large 1960-61 crop.

USSR-- Further substantial increases planned, and considerable equipment for beet sugar mills has recently been purchased in West Europe.



Mauritius-- Substantial increase expected as the industry ~~recovers~~ further from the disastrous hurricane of 1960-61.

South Africa-- Nearly all of the expected increase is likely to be available for export, most of it to the United Kingdom.

Australia-- Australian producers have an excellent record of applying science and technology in their industry.

India-- Low production in 1962-63 was the result of government policy initiated because of surpluses in previous years. A change of policy has been announced to encourage the production of more sugar.

Philippines-- A larger increase would be likely, except for the changed conditions which will follow termination of the United States-Philippine trade treaty in 1974. This is reported to be discouraging new long-term investments in the Philippine sugar industry.

Taiwan-- Expansion possibilities are limited by the small amount of new land suitable for sugarcane production.



DEPARTMENT OF STATE
WASHINGTON

May 27, 1963

MEMORANDUM FOR: The Honorable John A. McCone
Director, Central Intelligence Agency

The White House has requested the State Department to distribute the attached memorandum to each member of the NSC Standing Group prior to the May 28 meeting.

William H. Brubeck
Executive Secretary

Attachment:

Copy No. 5 May 27 memorandum on Possible
Soviet Initiatives to End US Aerial
Reconnaissance Over Cuba

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May 27, 1963

MEMORANDUM FOR THE NSC STANDING GROUP

SUBJECT: Possible Soviet Initiatives to End US
Aerial Reconnaissance Over Cuba

Problem:

To evaluate considerations involved and the various options available to the USSR and Cuba in seeking to end US aerial reconnaissance over Cuba.

Discussion:

The Soviet Union, and still more Castro's Cuba, wish the cessation of US overflights of Cuba. The issue at present is only in the background, and the Communists evidently do not feel it is desirable to raise their objection prominently until they think there is something they can do about it. They evidently recognize that the shooting down of a reconnaissance plane would probably provoke active countermeasures to which they could not effectively respond, and moreover not end the surveillance. Assuming that they continue to believe that they cannot with impunity use direct action to end the overflights, they may nonetheless turn to other measures in an effort to compel us to stop further reconnaissance. Moreover, they

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may believe that some such other measures may, even if unsuccessful in themselves, create a better foundation for shooting down a plane later.

Alternative Courses of Action:

There appear to be six possible lines of political action open to the Communists in attempting to get us to call off the aerial reconnaissance of Cuba:

(1) Cuba could protest in the United Nations General Assembly and/or Security Council, calling for condemnation of the US action and for a cessation of the flights.

(2) Cuba could bring action before the International Court of Justice, or seek UN action requesting an advisory opinion from the ICJ, calling for cessation of the flights.

(3) The Soviets could initiate pressures elsewhere--such as Berlin, privately or publicly tying the new pressure to the continuing overflight of Cuba, and offering to relax the new point of tension in exchange for cessation of aerial reconnaissance of Cuba.

(4) The Soviets could privately offer to withdraw all Soviet military personnel from Cuba in exchange for quiet dropping of aerial surveillance by the US.

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(5) The Cubans could publicly propose a trade-off allowing ground inspection in exchange for an end to aerial inspection, but we are sure they would not do this unless they also added in demands for ground inspection in Florida or elsewhere in the Caribbean.

(6) The Cubans could, with discrete Soviet assistance, initiate aerial reconnaissance of some other area in the Caribbean--say, Guatemala or Nicaragua--on the grounds that offensive military action was being prepared in those countries (as it had been before the Bay of Pigs attack), justifying and requiring Cuba to undertake this peaceful aerial inspection. Then, the Cubans could offer to call off their surveillance if we call off ours.

Action in the United Nations:

A Cuban protest in the United Nations, vigorously supported by the other Communist powers, would open up an issue which most people have forgotten. They would probably gain some support for the idea that indefinite aerial overflight and reconnaissance was an undue infringement of sovereignty and should be stopped. The US defense would rest on two bases: The OAS Resolution of October 23 authorizing such action, and the de facto resolution of the October crisis in which with forbearance the US settled for unobtrusive aerial reconnaissance

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instead of insisting on ground inspection. Therefore, it would not be necessary to rest our case on a general right to reconnaissance, and this should hold in line many states which would be unwilling to agree to any position which justified aerial reconnaissance over their own countries.

It seems unlikely that the Cubans could get the necessary two-thirds of the General Assembly or a majority of the Security Council to support them (in the latter case, of course, we would veto). In fact, we believe that the Cubans, and the Soviets, would not expect an initiative in the UN to end the overflights, and probably not even to garner enough votes to be useful propaganda against the US action.

Action by the ICJ:

Cuba has not agreed, and is not likely to agree, to compulsory adjudication by the International Court. If she did, there are a number of counter-suits which the US could initiate (expropriations of US properties, etc.). However, while the Cubans could not be sure of winning their case on the overflights, we could be even less sure of winning. Our defense would be the OAS Resolution of October 23, but if Cuba announced its complete severance from the OAS (which it has not yet done), it is doubtful that we would win.

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On balance, we think it unlikely that Cuba would submit its case to the ICJ, but if they did and we conceded jurisdiction to the Court, we could be in trouble.

Counterpressures:

The Soviets could initiate pressures elsewhere. In particular, they could attempt to gain support from our European Allies by making an end of reconnaissance over Cuba the price for warding off a new Berlin crisis. There are certain precedents for the Soviet policy of counterpressures, which would be more likely in a situation where the Soviets could better control the degree of tension than they could, for example, when there was a real crisis over Cuba. Nonetheless, it would appear unlikely that the Soviets would expect, or would succeed in rallying, much support in the West for a sellout on Cuban reconnaissance in exchange for relaxation of artificially generated tensions elsewhere.

Inducements:

If the Soviets and Cubans are sufficiently desirous of ending the overflights, they might approach us privately with an offer of some expendable quid pro quo. In particular, if they should decide that the continued presence of Soviet military personnel was not

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essential, they could offer the complete withdrawal of such personnel in exchange for an end of the overflights. They would, of course, have to consider that if the US refused, they would have tipped their hand on the negotiability of the continued Soviet military presence. Nonetheless, if they are sufficiently concerned, and do not believe they can force their way, they may attempt to buy it.

Presumably, our response would be insistence that the overflights continue until there was also active on-ground inspection, and that Soviet offers to withdraw their military only reflected growing awareness of the untenability of their position in having military men in Cuba in the first place.

Bargaining:

The Cubans could announce with much fanfare their readiness to accept ground inspection if aerial surveillance were ceased and if ground inspection were made of places which they believed were being used to mount offensive action against Cuba: the Bahamas, Florida, Puerto Rico, and perhaps others. If this approach followed protests by Cuba or in the UN, it might persuade some that the Cubans had a reasonable solution as well as a justified complaint.

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The US defense would be acceptance in principle of the encouraging Cuban indication of readiness to substitute effective ground inspection for aerial coverage, but rejection of any tie-in of the extraneous matter of alleged support for offensive actions against Cuba, and noting (in backgrounding) US clamp-down on Cuban exile activists. The OAS members would probably hold firm with us, but some might be willing to entertain the Cuban offer plus inspection against subversive training and export by Castro. All in all, the Cubans would be less likely now than in November to stir up much support for their position, and would probably not effectively create an impression of reasonableness sufficient to provide political justification for unilateral action to stop the overflights.

Sauce for the Goose:

The Cubans could tacitly embrace our own concept for justification, and turn it against us. They could announce that they were mounting aerial reconnaissance over some area where offensive forces had previously been mounted against them. Conceivably, they could carry reciprocal action to the point of announcing in advance their plans to overfly Dade County or Puerto Rico, but recognizing the greater risk in this initiative it seems more likely that they would pick

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Nicaragua, Guatemala, or the Dominican Republic for MIG-17 or B-26 overflight. They would probably announce their intention in advance in order to undercut our use of presumptive bombing attack as justification for immediate interception. If the United States undertook or supported the interdiction of Cuban reconnaissance flights, the Cubans would have a much stronger basis for an appeal to the UN complaining over Yankee attempts to apply a double standard. If we did not interfere, there would be substantial repercussions outside of Cuba and some pressures to agree to mutual cessation of reconnaissance overflights. Again in this case, the chief US defense would be the OAS Resolution of October 23.

Conclusions:

This quick survey of possible Communist initiatives to end US aerial surveillance of Cuba is not exhaustive, but includes the half-dozen most feasible courses they might consider. None of them appears so sure of success as to be immediately attractive, but such decision is also a product of the intensity of their desire to end the overflights, which it is difficult to measure.

The possible courses of action are not necessarily mutually exclusive. The Communists could concert a carrot and stick combination

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of UN action and pressures, for example. They could try several courses in turn. A counterpressure on our access to Berlin would pose greatest danger of direct confrontation with the USSR and would be the course most involving pressures on our NATO Allies.

Attached is an illustrative scenario, couched in terms of a memorandum to Khrushchev from his "staff," outlining one way in which the Soviets might combine some of the possible options described above.

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MEMORANDUM FOR COMRADE KHRUSHCHEV

SUBJECT: Considerations Involved in Eliminating US Reconnaissance
Over Cuba

1. Problem.

To evaluate the considerations involved in a suggested course of action which seeks to eliminate US reconnaissance flights over Cuba.

2. Background.

a. When our miscalculations of US reaction to our emplacement of missiles in Cuba led to a critical confrontation in October 1962, common sense and ideological doctrine dictated immediate tactical retreat. Your decision to remove the missiles and aircraft from Cuba, together with the promise that adequate verification of removal and safeguards against re-entry would be provided, defused the critical aspect of the situation. Subsequently, it was necessary, as the talks of Comrade Mikoyan with Castro proceeded, to restore our image and win Fidel's reluctant acceptance of our unilateral decisions, by agreeing that we would not insist on on-site or in-port inspections. The only way in which this could be accomplished was to work out, tacitly, with the capitalists in Washington, an arrangement whereby we took no further action on US reconnaissance flights and the US did not press, through force, its demand for on-site inspection.

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b. This arrangement solved our immediate tactical problem. Now, however, the question arises whether the time has come to seek to eliminate the US surveillance flights which continue to exacerbate our relations with Fidel and which set a dangerous precedent by creating the impression before the world that capitalist nations have the right to protect themselves by conducting espionage operations through socialist skies.

3. Considerations.

a. Not only the problems cited above, but also the risk that the US may seek to use her U-2 flights to create an incident as an excuse for further action against Cuba, make it desirable to eliminate such flights or to take the initiative in creating an incident in order that we may structure it to suit ourselves.

b. The US domestic political situation and the USG's concern over our political flanking maneuvers in Latin America is such that the capitalist government may find itself increasingly motivated to take forceful action to overturn the revolution in Cuba. The October missile crisis taught us that, contrary to the advice of certain socialist circles, the US capitalist government can still find the courage to use force.

c. They are reinforced in their motivation to do so, and we in turn are restrained, by our mutual knowledge that the capitalist

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world at the present time has appreciably greater strategic power than does the socialist world.

d. Certain circles in our Government point to the need to take a hard line not only to support Fidel, but also to prove to the Chinese Communists and those who follow their lead that we Soviet Communists have not become soft. These circles, including certain deviationist leaders, even impugn the fitness of you, Comrade Nikita, to continue as our leader. Other circles clamor that the resource allocation problem is critical and that we must find a way to improve the yearning of our socialist citizens for an improved standard of living. And as you know, each time we heat up our relations with the decadent West, they tend to pull together, increase their defense expenditures, and force us to continue or increase our heavy defense burden.

4. Conclusion.

a. Cessation of US reconnaissance flights over Cuba is highly desirable, but any scenario for accomplishing this would have disadvantages and risks.

b. The capitalist preponderance of power makes a major confrontation unwise; our internal problems make it undesirable.

c. Ideological considerations make it necessary that we demonstrate firmness of resolve and Communist offensive spirit in connection with working out any detente with the US on this matter;

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yet the orchestration of this offensive must minimize the opportunity for the US to capitalize on our moves to overturn or further to harass Castro.

5. Optimum Course of Action.

If the Presidium decides that the elimination of U-2 flights over Cuba is sufficiently important to hazard the risks and accept the disadvantages, the following scenario is recommended:

a. The Soft Beginning. The offensive would be initiated by Fidel (to maintain the David/Goliath image), who would go to the UN with a demand that US violation of Cuban sovereignty by aerial overflight be discontinued. We would come to his support, reiterating the great efforts we had made to save the peace of the world by removal of our missiles and aircraft which were there to protect him from US aggression. We would remind the world that our patience is not unlimited and of the action we were forced to take against US U-2s which operated over our Fatherland in an earlier era. Pressures would be brought to bear from all circles. We would let it be known privately that the sole reason for the retention of USSR troops in Cuba is to protect that beleaguered nation from the designs of the US and that a detente involving the removal of these troops, cessation of U-2 flights, and a UN guarantee of Fidel's status sans offensive armaments could be worked out. (In actual fact, we should try to get a situation in

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which the U-2 flights stopped immediately and troop removals commenced in phases thereafter. This would appear to be a socialist victory and might permit us to find some pretext later for retaining a lower level of troops in Cuba.) We might have to settle for some arrangement in which the frequency of U-2 flights was slowed down as troop removals took place and ended when the last of our troops were out. It might also be necessary to permit a UN observation group to enter Cuba. We could insist in this event that the same group have access to other Caribbean countries which have been a base of subversion against Castro. Or alternatively, we could achieve a victorious connotation by insisting that the UN presence in Cuba provide for the integrity of Fidel's regime and Cuba's sovereignty.

b. Phase Two--Increasing Pressures. Having stated a convincing case, in the UN and before the world, of the inadmissibility of continued US reconnaissance over a sovereign and independent state, and the reasonableness of our proposed solution, and in the absence of US movement toward our proposals, we should accentuate pressures. The reasoned nature of our package should minimize the risk of US escalation against Castro as our pressures increase.

Our primary purpose during this phase would be to sow disarray among the US and her allies. We should let the UK in particular know privately that we are reluctant to do so but that action against

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Berlin may be necessary to bring the US around. We should urge the reasonableness of our Cuban package upon them, pointing out that they are really captive to US interests there which are based on concerns contrary to UK interests and no longer justified. We should hint that progress on test ban and increased trade are possible if we can achieve the better climate that cessation of Cuban overflights would bring. We should let the French and Germans know that Berlin is in new jeopardy because the US has refused to accept a reasonable proposal for Cuba and that our patience is not unlimited.

After these pressures have been brought to bear both privately and through the full force of our apparatus, we should let it be known that we are about to turn over the SAM sites to the Cubans and can no longer be responsible for their restraint. The frequency of our aerial penetrations of Norway, Alaska, and other NATO areas should be increased. These actions should be accompanied by new private warnings to the allies that harassments at Berlin must soon be forthcoming.

c. Final Phase--Will the US Blink? Our measures to date will have consisted of the careful spelling out of a reasonable proposal despite US intransigence, and of verbal pressures. The prospect seems excellent that the US will have been brought to the conference table at this point. If she has not, we will face the painful choice of terminating our scenario unsuccessfully or of risking more drastic

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measures. Our final choice would have to depend on our over-all evaluation of the degree to which we had been able to splinter the Western alliance, and of the resolve of the US Government. One choice that would seem clearly ruled out is the shooting down of a U-2, since that could provide the US with the excuse she may have been looking for to eliminate Castro. (For that reason, despite our threats to do so, we should not turn over the SAMs to Fidel in this time-frame, unless you have already become committed to do so, during his recent visit.) On the other hand the peculiar legalistic/Christian mores of the West would make it difficult for the US to justify an attack on Cuba for action taken by us elsewhere. One such action which could serve to establish the bona fides of our intentions, with the US and her allies, would be the shooting down of a US ECM espionage aircraft with the claim that it had violated our territorial waters. But the initiation of harassments at Berlin, of measured and careful nature, and after adequate and subtle development, would be more likely to provide the variety of pressures on the US that we would need. These interferences should not be escalated to serious levels but rather should be conducted in such a way that if the US does not give in over Cuban overflights we can use that intransigence to win some small improvement re Berlin.

d. Minimum Settlement. Our orchestration should not be initiated unless the accomplishment of our objective for Cuba seems

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reasonably probable. On the other hand, recognizing the enigmatic quality of the political equation involved, we must consider the minimum settlement we can accept. This is judged to be one in which you, Comrade Khrushchev, would be able to show some improvement over the status quo ante either in Cuba or in Berlin. If the conflicting interests of the US and her allies are skillfully played and pressures are artfully applied, this minimum objective should not be in doubt. The US Government could not conceivably escalate any of the measures in our scenario above, in one giant leap, into an invasion of Cuba. Our line of retreat should be assured by watching for the initial moves the US might initiate in seeking to justify that invasion. If our orchestration should lead to unmistakable signs of such US measures, we should seek promptly to settle for the minimum objective of having raised doubts of the responsibility of US policy in risking war and in aiming at aggression in the Caribbean.

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May 24, 1963 2957

THE WORLD PRICE OF SUGAR

*Mr. McLean*The Situation

The world price of sugar has risen to present levels because of a sharp drop in world supply in the face of steadily rising demand. The poor European beet crops of the last two years coincided with the severe reduction in Cuban production and the loss of most of that production to the communist bloc.

Cuban production has fallen from a 1961 level of 7.5 million short tons* to an estimated 3.8 to 4.2 million this year. Cuba has bartered more than this output to the Sino-Soviet bloc (3.3 million tons to the Soviet Union, 1.3 million to China, and 700,000 to the satellites), but has been permitted to sell about 1.25 million tons in the free world market so far this year. Following are world production and consumption figures, in millions of short tons:

Crop year	Production	Consumption	Stock change
1957-58....	49.1	49.0	+0.1
1958-59....	54.5	51.0	+3.5
1959-60....	53.9	53.0	+0.9
1960-61....	60.1	55.0	+5.1
1961-62....	56.0	57.0	-1.0
1962-63....	54.3	58.5	-4.2

While these figures suggest that the 1962-63 decline in stocks is only an adjustment from the earlier buildup, it is complicated by the fact that most of the 1960-61 buildup was in the Soviet Union and its satellites.

As always, the real shortage is intensified by scare-buying. Beginning late last year, sugar users and distributors in this country have added 600,000 tons to their stocks, and the buying rate since April 1 has been up 30 percent. Presumably, inventory-building is also going on in the other developed countries.

At the same time, some supplies are being held off the market in producing countries in anticipation of higher prices.

Among countries with heavy stocks is the Soviet Union, which has been taking most of the Cuban output even though it has not permitted enough rise in consumption levels to utilize the additional quantities.

* All figures in this report are in short tons.

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- 2 -

Its stocks at the end of 1962 are estimated at 4 to 4.5 million tons--about 50 percent above normal. Poland also had above normal supplies. The Soviet bloc, before it obtained the Cuban supplies, had been a net exporter of sugar.

Tab A shows recent price movements, Tab B charts world production and consumption, and Tab C breaks the production figures down by countries.

The Outlook

There is no prospect for relief in the tight supply situation until this year's beet harvest, at the earliest, and little prospect for a really easy balance between supply and demand for 3 or 4 years--assuming that a substantial additional Cuban supply does not re-enter the world market. It will probably be much longer before the world sugar price again reaches the low levels of last year.

Unfortunately, this year's beet crop in Western Europe got off to a slow start because of unfavorable weather and the yield may be again less than normal. Current high prices are encouraging some expansion in practically all areas of sugar beet and cane production, but bringing in new cane acreage requires 18 months and new beet acreage almost as long. No immediate large-scale expansion appears to be underway anywhere in the free world.

Scare-buying has probably not yet ended. At the time of the Korean crisis, inventory-building among U. S. users and distributors reached a million tons, and only 60 percent of that potential over-buying has occurred so far.

When the supply situation eases, prices can move downward as quickly as they have been moving up. The worst should be over when this year's beet crop is harvested in October. But a poor European crop could mean another year of extraordinary high prices. The futures market on deliveries for July and September 1964 has recently been rising rapidly, indicating that traders expect no real relief within 16 months which is far into the future as the market extends.

The Soviet Union could bring the world price down at any time by releasing its excess stocks for sale in the world market. If the world price began to fall without such action, Soviet dumping could accelerate the down trend. We have no evidence now, however, that the Soviet Union contemplates any substantial sales. It has been suggested that if an authoritative estimate of the size of Soviet stocks were made known, this alone might affect price.

Tabs B and C project anticipated world production and consumption and production by countries through 1965-66, and Tab D provides a commentary on prospects for expansion in the principal producing countries.

What might be done to alter this outlook is discussed under the headings which follow.

- 3 -

Increasing Domestic Production

All restrictions on sugar beet acreage have been removed for 1963, 1964, and 1965. U. S. production of beet sugar this year should reach a record level of 2.9 million tons--compared to 2.6 million last year--and should increase further in the next two years. Processing capacity is being expanded from 3 million to at least 3.3 million tons by 1965. There appears to be no need for additional incentives beyond the prospective high prices.

Acreage restrictions on mainland cane have been removed for 1963 and 1964. This should result in enough additional production in Florida to fill the mainland cane quota under the Sugar Act. To remove restrictions for 1965, as has been done in the case of beets, would provide additional incentive to produce, but the production could not be marketed within the statutory quota. The producers would probably be willing to take the risk if assured by the Administration that it will recommend the necessary quota increase when the Sugar Act is revised next year.

Hawaii, Puerto Rico, and our offshore possessions have no restrictions on either acreage or marketing.

Increasing Foreign Supplies

This question breaks into three sub-questions:

Long-Range Expansion. Many parts of the world have potential for increased sugar production from cane, but bringing new acreage into production requires about 18 months. Opportunities also exist for expansion of production of beet sugar, which if started now could be accomplished in a slightly shorter time. Construction of processing capacity takes about the same length of time. New investment may take 20 years of reasonably good prices to pay off.

Spurred by present high prices, some countries are expanding production (See Tab D). However, they are held back by, among other things, uncertainty as to markets and prices in 1965 and thereafter. The United States is not in a good position to offer guarantees as to long-range markets. The Sugar Act contains limitations on each country in the form of country quotas. And, the global quota is reserved for returns to Cuba after Castro. We would indeed be embarrassed if we pushed other countries to fill the gap left by Cuba and then had to find room for resumption of Cuban deliveries. We would be embarrassed also if we pressed these countries to expand and the world price in a few years fell to levels approaching those of a year ago, when sugar production was being curtailed in many countries because it was unprofitable.

Even Philippine companies, which enjoy special access to the U. S. market because of a preferential tariff rate and a guaranteed quota until 1974, have been expressing reluctance to expand without assurances beyond that date.

- 4 -

Short-Range Production Increases. On existing acreage, possibilities exist for improving cane yields per acre and increasing the recoverable quantities of sugar per ton of cane--by such means as increased use of fertilizer, modernization of existing mills, increased use of labor and improvement of cultural and factory practices. Moreover, where unused processing capacity exists, using that capacity requires only the investment necessary to add new acreage or substitute more productive for less productive land. With an attractive market opportunity for any increased output, these immediate short-range measures appear to be appropriate areas for United States assistance. AID and USDA are asking the AID missions and agricultural attaches to explore immediately the possibilities of, and need for, dollar and technical assistance for short-range measures. The Export-Import Bank has also been advised of the desirability of actions in these directions.

Pressure for Release of Supplies. Where supplies are being held off the market in anticipation of still higher prices, diplomatic pressure might be effective. State has already made strong representations to Manila in an attempt to pry loose some stocks that are known to be held there.

Restraints on Demand

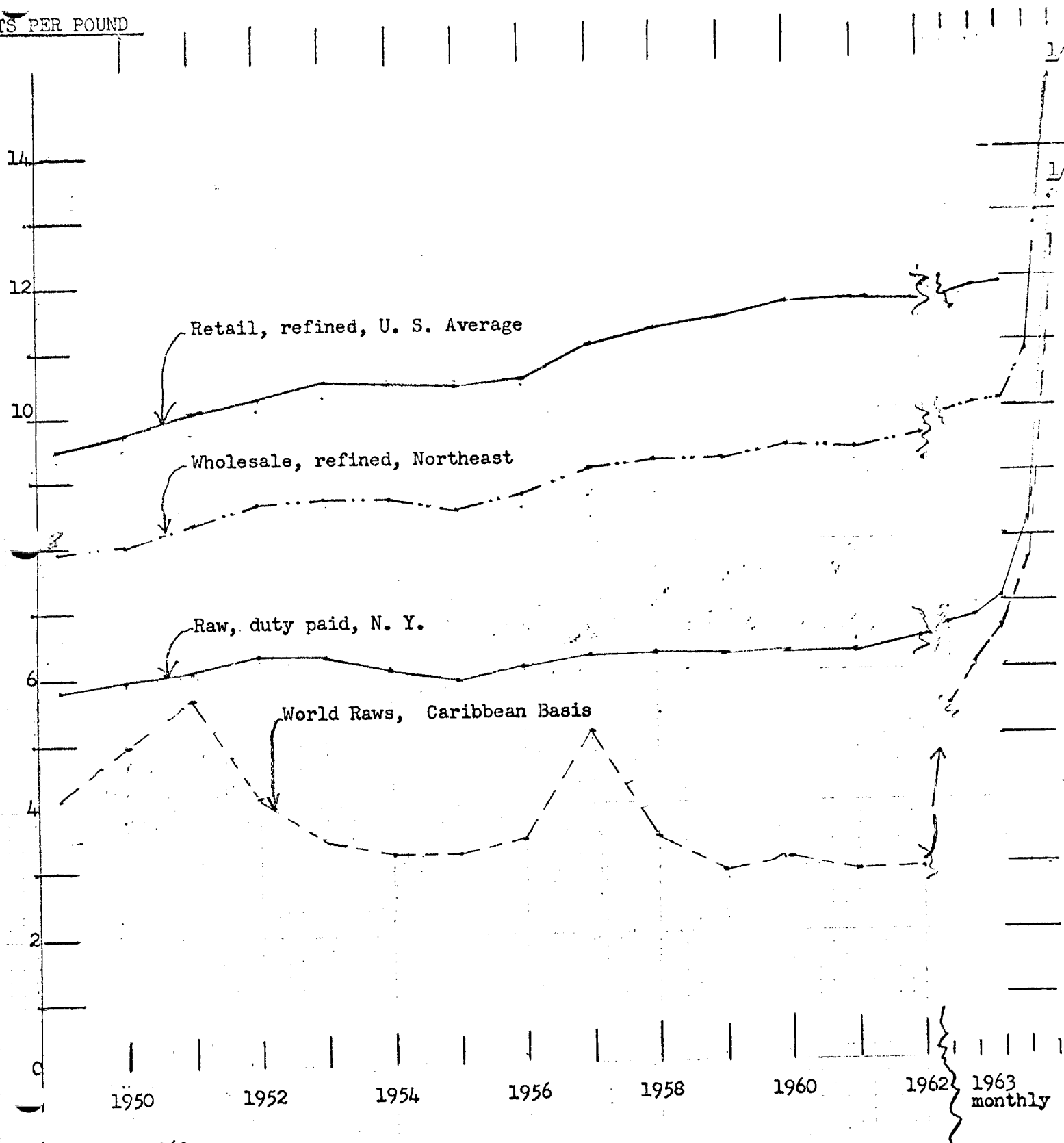
Inventory-building and scare-buying are difficult to deal with on a world-wide scale. To impose controls in the United States alone would have an effect on the world price, of course, but besides being highly controversial and unpopular, controls would require legislation and administrative machinery--with all the delay they would involve. The sugar companies have been doing some informal allocation of supplies among their customers, but stocks in the hands of industrial users and wholesalers and retailers are probably close to a million tons compared to a normal level of 400,000.

If housewives were to panic, severe additional price pressures could develop. So of this date, however, there has not been any sustained run on the grocery stores.

Some minor benefit might come from revising regulations, mainly those of the Food and Drug Administration, which limit the amount of sugar substitutes--primarily, corn sirup--which can be used in certain products. However, corn sirup production capacity is currently strained to the point where the principal producers have been declining additional orders--so this avenue offers no major hope of immediate relief.

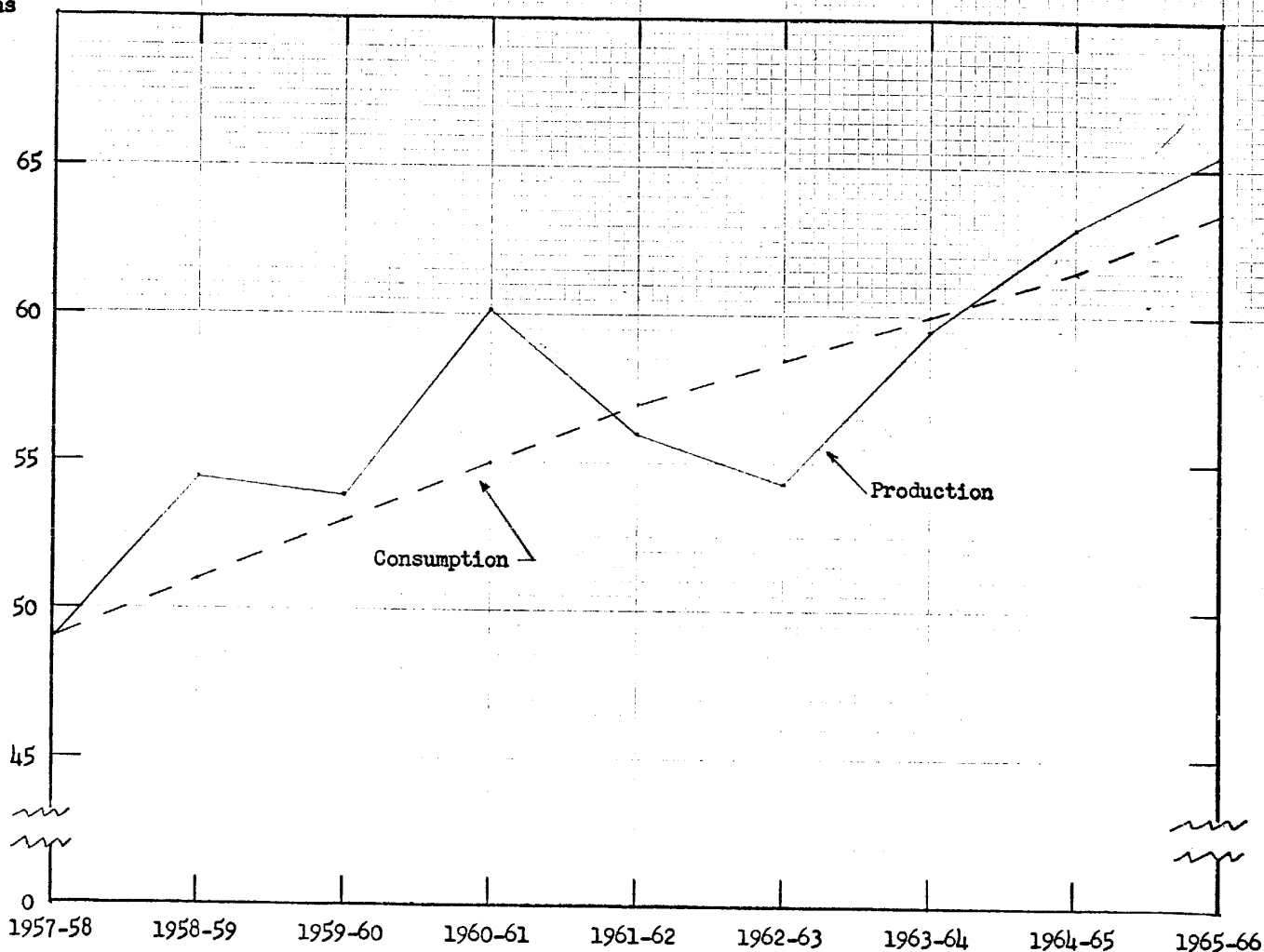
SUGAR PRICES -- RAW AND REFINED

CENTS PER POUND



1/ May 22, 1963

Million
short
tons



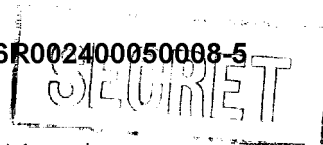
Consumption for 1957-58 through 1962-63 represents trend based on data from the International Sugar Council.

Centrifugal Sugar (raw value): World Production by
Major Countries and Continents, 1960-61 - 1965-66

Countries & Continents	1960-61	1961-62	1962-63	1963-64	1964-65	1965-66
	----- 1,000 short tons -----					
U. S. ^{1/}	5,297	5,426	5,662	6,165	6,390	6,500
Cuba	7,459	5,400	3,800	3,600	3,400	3,300
Dominican Republic	962	960	900	1,000	1,100	1,200
Mexico	1,603	1,649	1,791	2,000	2,100	2,200
West Indies (British)	998	941	1,027	1,100	1,100	1,200
Other	951	1,051	967	1,135	1,210	1,200
Total North America	17,270	15,427	14,147	15,000	15,300	15,600
Argentina	903	754	858	975	1,000	1,025
Brazil	3,804	3,928	3,533	4,200	4,300	4,400
Peru	891	904	827	950	975	1,075
Other	1,309	1,396	1,574	1,600	1,825	1,900
Total South America	6,907	6,982	6,792	7,725	8,100	8,400
EEC	7,590	5,641	5,448	5,650	6,100	6,400
UK	1,082	926	902	1,000	1,050	1,100
Other	1,935	1,758	1,580	1,850	1,950	2,000
Total West Europe	10,607	8,325	7,930	8,500	9,100	9,500
East Europe	5,228	4,710	4,319	4,600	4,900	5,100
USSR	6,600	7,300	6,900	7,500	7,850	8,200
Mauritius	260	610	672	700	750	800
South Africa	1,052	1,174	1,274	1,350	1,550	1,650
Other	1,208	1,209	1,277	1,450	1,700	1,850
Total Africa	2,520	2,993	3,223	3,500	4,000	4,300
Australia	1,504	1,512	2,018	2,300	2,450	2,650
India	4,042	3,775	3,177	3,700	4,000	4,200
Philippines	1,563	1,668	1,805	1,950	2,000	2,100
Taiwan	1,018	800	1,100	1,200	1,350	1,400
Other	2,818	2,528	2,911	3,525	3,950	4,050
Total Asia and Oceania	10,945	10,283	11,011	12,675	13,750	14,400
Total World	60,077	56,020	54,322	59,500	63,000	65,500

^{1/} Includes Puerto Rico and Virgin Islands.

Explanatory Notes to accompany table on



World Sugar Production by Major Countries and Continents,
1960-61 - 1965-66

With the exception of Cuba, sugar production is expected to increase in all important producing countries through 1965-66.

The expected increase in world production from 1962-63 to 1965-66 is considerably larger than expected increase in consumption. The expected production increase in non-communist areas is about 9,000,000 tons, 3 times that for communist countries.

Cuba-- Further decreases expected for the next 3 years because of economic and political confusion, loss of trained personnel, and inability to properly repair mills and farm machinery which originally came from the United States. The decline, however, is expected to be at a considerably slower rate than in 1961-62 and 1962-63.

United States-- Expected to increase by nearly 1,000,000 tons by 1965-66, primarily in the sugar beet and mainland sugarcane areas. Limited resources restrict expansion possibilities in Hawaii and Puerto Rico.

Dominican Republic-- 1962-63 output reduced by economic and labor difficulties. Moderate expansion expected over the next 3 years.

Mexico-- Plans have been announced for expansion but most is consumed domestically and quantity available for export will increase considerably more slowly than production.

West Indies (British)-- Modest increases expected.

Brazil-- Potential for increase in large. Actual increases will be limited by the uncertain economic outlook, but even so a substantial increase is projected.

Peru-- Limited supplies of irrigation water are a factor restricting the increase.

Common Market (EEC)-- A considerable part of the 1,000,000-ton increase that is projected will represent recovery from the low yields of 1961-62 and 1962-63. The projected 1965-66 production is well below the bumper output of 1960-61. However, excess production in 1960-61 caused considerable economic difficulty in the beet industry and indications are that these countries wish to avoid over-expansion again.

United Kingdom-- Expected to increase to approximately the size of the bumper 1960-61 crop.

East Europe-- An increase of about 800,000 tons by 1965-66 will leave output still slightly below the unusually large 1960-61 crop.

USSR-- Further substantial increases planned, and considerable equipment for beet sugar mills has recently been purchased in West Europe.

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Mauritius-- Substantial increase expected as the industry recovers further from the disastrous hurricane of 1960-61.

South Africa-- Nearly all of the expected increase is likely to be available for export, most of it to the United Kingdom.

Australia-- Australian producers have an excellent record of applying science and technology in their industry.

India-- Low production in 1962-63 was the result of government policy initiated because of surpluses in previous years. A change of policy has been announced to encourage the production of more sugar.

Philippines-- A larger increase would be likely, except for the changed conditions which will follow termination of the United States-Philippine trade treaty in 1974. This is reported to be discouraging new long-term investments in the Philippine sugar industry.

Taiwan-- Expansion possibilities are limited by the small amount of new land suitable for sugarcane production.

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17 MAY 1963

MEMORANDUM FOR: Director of Central Intelligence

THROUGH: Deputy Director (Intelligence)

SUBJECT: U.S. Department of Agriculture Paper,
"The World Price of Sugar"

REFERENCE: Memorandum for the Director of Central Intelligence,
from the Assistant Director, Research and Reports,
subject, "Cuban Activity in the World Sugar Market,"
dated 24 May 1963 ()

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1. This memorandum is for your information and background use in connection with the Standing Group meeting of 28 May. The attached paper, "The World Price of Sugar," was obtained today from Mr. James L. Sundquist, Deputy Under Secretary of the Department of Agriculture. This paper was prepared by the Department of Agriculture in response to National Security Action Memorandum No. 244, 15 May 1963, from Mr. McGeorge Bundy to the Secretary of Agriculture, on "The Future of the World Sugar Market," and will be discussed by the Standing Group tomorrow.

2. We are in general agreement with the Department of Agriculture's paper, which incorporates material from CIA/ORR publications furnished to Mr. Sundquist, as well as suggestions we made on his first draft. However, we did not see Tab B, "World Sugar Production by Major Countries," until today, and believe its forecast of the likely level of Cuban sugar production is too low. The comparative estimates are as follows, in thousands of short tons:

	<u>1963-64</u>	<u>1964-65</u>	<u>1965-66</u>
Department of Agriculture	3,600	3,400	3,300
CIA/ORR	4,600	4,800	5,000

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3. This difference in the estimated future Cuban crop does not affect the basic conclusions contained in the Department of Agriculture's paper.

4. Mr. Sundquist has not seen the referenced report on Cuban activity in the world sugar market. He is, therefore, unaware that the Cubans have been operating in the London futures market. Our latest information, covering transactions as of 7 May, is that the Cubans have sold at least 200,000 tons for delivery from December 1963 to August 1964. Further, they have liquidated their "long" position of 25,000 tons of sugar for near-term contracts. We know of at least three million pounds sterling put up to meet margin requirements by the Cubans. As of this date, these transactions appear to have resulted in a substantial net loss, which Cuba may recoup if there is a sharp price drop before the sugar futures contracts must be closed out.

5. In my referenced memorandum, we estimated Cuban foreign exchange earnings from 1963 sugar sales at \$120 to \$200 million from the Free World and \$175 to \$220 million from sales to Soviet Bloc countries and China. Recent press reports state that, during his recent Moscow visit, Castro was successful in persuading the Soviets to bring the price paid to Cuba into line with world prices for sugar, rather than the four cents a pound on which our earlier estimate was based. We do not know what "world price" will be agreed to, or whether the new price concession applies to all 1963 sales rather than to the undelivered balance. Further, there has been no Chinese or European Satellite announcement of parallel price concessions to Cuba. However, if all of these countries agree to pay world prices on 1963 deliveries, and if the agreed world price were 10 cents a pound, then Cuban earnings from sugar sales to the Soviet Bloc and China would amount to between \$440 and \$550 million. This is probably an outside estimate, which cannot be refined until we receive more information.

6. The Soviet agreement to pay world prices for Cuban sugar makes it most unlikely that the USSR will sell significant quantities of sugar in the West from its surplus stocks. To the Cubans, the Soviet price concession means a substantial boost in export earnings, although the net benefits are less certain because Cuba has been

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receiving foreign exchange aid from the USSR, which amounted to over \$200 million in 1962. Possibly the new price concessions are designed to offset Cuba's payments deficit and eliminate the need for further balance of payments help from the USSR.



OTTO E. GUTHE
Assistant Director
Research and Reports

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Enclosure:
"The World Price of Sugar"

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THE WHITE HOUSE
WASHINGTON

May 28, 1963

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MEMORANDUM TO: Members of The Standing Group

The meeting this afternoon will be devoted to a number of special problems on Cuba, but I hope we may have a few minutes at the end to take a reading on the general position as it appears to be developing.

1. First, we will turn to the problem of sugar as presented in the papers of the Department of Agriculture. For this part of the discussion, Under Secretary Sundquist will be present for Secretary Freeman.

2. We should briefly discuss a paper on possible U. S. actions in the event of Castro's death. For this part of the discussion Mr. Sherman Kent will be present.

3. There are two highly sensitive CIA papers which Mr. McCone has requested that we hold for distribution at the meeting. They deal with a list of possible actions under consideration at CIA and with the specific problem of Cuba's oil supplies.

4. I propose at the end to make a brief oral comment on the results of our discussions thus far, as I understand them. My own preliminary conclusions are not optimistic, but that is not an excuse for avoiding the issue.

McGeorge Bundy

McGeorge Bundy

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